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WASTE, FRAUD, AND ABUSE

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BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

PART 2

INSPECTOR GENERAL OPERATIONS AND NEEDS

FEBRUARY 19, 1987

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WASTE, FRAUD, AND ABUSE

THURSDAY, FEBRUARY 19, 1987

U.S. Senate,
Committee on Governmental Affairs,
Washington, DC.

The committee met, pursuant to recess, at 10:01 a.m., in room 342, Dirksen Senate Office Building, Hon. John Glenn, Chairman, presiding.

Present: Senators Glenn, Sasser, Roth, and Stevens.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman Glenn. This hearing of the Governmental Affairs Committee will be in order.

Yesterday we heard Comptroller General Bowsher praise the efforts of the independent offices of inspector general in fighting waste, fraud, and mismanagement. Since 1976, when the first statutory inspector general was established in a major executive department—and, I might add, it's hard for me to believe that that only occurred then, but that's when we started that whole thing—these offices have proven to be an outstanding success in improving the operations of their respective Federal departments and agencies.

Over the years the Governmental Affairs Committee has remained a strong supporter of the inspector general concept. Continued bipartisan congressional backing for these offices has facilitated the inspector general community's becoming a formidable opponent of government fat, fraud, waste and abuse. Recently, the President's Council on Integrity and Efficiency reported that the nineteen statutory inspectors general have a $342 million annual budget, 23,000 auditors and investigators whose efforts over the past 5 years have resulted in over 16,000 criminal prosecutions, over 15,000 administrative actions, and avoidance of over $71 billion in wasteful spending for the American taxpayer.

The usefulness of the statutory inspector general offices cannot be questioned. I would like to see the inspector general concept extended to several other major Federal establishments currently without statutory inspector general offices. Also, I perceive there is a clear need for strengthening internal audits and investigations in the smaller Federal agencies. I would like to see the benefits of the inspector general concept extended to these entities without necessarily creating additional statutory IG positions. I intend to address these issues by proposing amendments to the Inspector General Act of 1978.

There are several other issues that are important to the inspector general community which may require congressional action. First, it's obvious that the offices of inspector general will not remain "our first line of defense in attacking fraud, waste, and abuse," in the words of President Reagan, if the offices remain leaderless. Let me give you just one example. President Reagan gave his praise of IG's in May 1983 on the swearing in of Joseph Sherick as inspector general of the Department of Defense. Mr. Sherick ably performed his job and then, 10 months ago, announced that he would soon be quitting the post. In fact, he vacated that position in June 1986, but here we are today, 8 months later, no person has even been nominated to replace Mr. Sherick. Now, that's unconscionable; it's a disservice to the American public to leave such an important office vacant for so long. Nor is the IG position at DOD the only IG position which has remained vacant for an extended period of time.

Second, there appears to be a need for greater uniformity and reliability of audit results reported by the IG's and for additional information on implementation of corrective actions. My review of current inspector general operations indicates that the reports submitted to Congress lack consistency both in format and in the definitions used for necessary terms. Of course, without complete and useful information, it is difficult to determine an accurate figure on the savings accomplished by the work of the inspectors general.

So I intend to introduce legislation in the near future to address these issues.

Today we look forward to hearing from our distinguished guests who will discuss these issues and others facing the IG community. I would also like to recognize the great interest and the legislation in this area initiated by my distinguished colleague from Delaware, Senator Roth, who was Chairman of the committee—and Senator Roth has indicated that because he's over at the Finance Committee, that he will be a little bit late getting here; he plans to be here in about 40 or 45 minutes, if he can make it.

Also Senator Pryor, who chairs our Federal Services, Post Office, and Civil Service Subcommittee wanted to be here today, but he's ill, unfortunately, and he asked me to let you know that he is planning oversight hearings on the Postal Inspection Service for later this year. So he's not able to be with us here today either.

Senator Roth has an opening statement which we will insert into the record at this point.

Senator Heinz and Senator Bingaman have a statement for the record which we will place in the record following that of Senator Roth.

[The statements referred to follow:]

OPENING STATEMENT OF SENATOR ROTH

Mr. Chairman, I thought we had a very good hearing yesterday as the committee continued its focus on the reform of financial management practices in the Federal Government. The Comptroller General, Charles Bowsher presented an excellent statement laying out a basic plan for bringing these various management systems up to speed in terms of timeliness and accuracy.

Yesterday, Mr. Bowsher and others also alluded to the role that this committee has played over the years in fighting the good fight for improved financial management, but it is clear that so much more needs to be done. That is why I am especially encouraged, Mr. Chairman, that you have moved to cointinue this focus with the hearing today on the Inspectors General (IG's).

The public has the absolute right to expect honesty and efficiency in the expenditure of its tax dollars by the Federal Government. The identification and elimination of waste, fraud and abuse is essential if government is to deliver the goods and services for which it is responsible and if we are to maintain citizen confidence in our public insitutions.

This of course is the thinking that underpins the 1G concept. Only through this independent and coordinated approach to audit and investigation can the problems of waste and fraud be dealt with effectively.

We have now had nearly 10 years of experience under the original IG legislation and it is highly proper for the Congress and this Committee to ask what the impact has been. Are the IG's performing as we envisioned back in 1978? Do they have the independence and objectivity we initially sought? Are they given adequate resources to perform their work and are we at a point where we should move to expand the IG concept to departments and agencies that do not have the benefit of this important investigative tool? These are the sorts of questions I hope that the Committee and our witnesses will address today.

On this last point concerning expansion of the IG function, in the last Congress I introduced and the Senate passed S. 2005 that would have extended the Inspectors General functions to several small agencies and would have made needed technical changes in the existing IG legislation. At my request the President's Council on Integrity and Efficiency is looking into some aspects of small agency IG functions and I am looking forward to the final results of this effort. I hope that this report will give us some guidance on the appropriate way to expand the IG function.

And as I said yesterdaly, I am particulary pleased that Senator Glenn has expressed his willingness to pursue new IG legislation incorporating many of the concepts that I developed in the 99th Congress. In my view we have made a good start with the investigations and reports of the Inspectors General carried out to date. Now it is time to get on with the job and build upon the foundation established over the last 9 years.

OPENING STATEMENT OF SENATOR HEINZ

Mr. Chairman, the Inspectors-General before us, the Postal Inspection Service, and the President's Council on Integrity and Efficiency have done yeoman's work through internal audit and investigation. I commend the Chairman for calling this hearing, and look forward to examining methods to strengthen and further the goals of the Inspector General Act of 1978.

The Boesky case is probably the most widely-known example of effective investigation carried out by a Federal agency's internal audit. Charles Clauson and the Postal Inspectors deserve great credit; they are the lead investigators in this matter. The question for us, it seems, is how to replicate effective internal audit in those agencies which do not now have an Inspector General, and how to strengthen auditing and investigative functions while preserving the valuable independence that IGs must have.

That such agencies as the Treasury and the Department of Justice—whose duties are vast and of critical importance—do not now have an Inspector General is of real concern. Charles Bowsher, the Comptroller General, yesterday recommended that the Committee pursue the need for greater internal accountability at those agencies. We need to follow up on that recommendation.

Revelations of tremendous internal problems in NASA show the need for effective internal oversight there. Similarly, my experiences with the disaster at Three Mile Island and the subsequent restart of the undamaged reactor—a premature restrart, in my view—lead me to believe that the NRC is in need of more effective investigatory abilities.

The Senate addressed this matter last year through legislation authored by the distinguished Senator from Delaware. I am pleased that the Chairman is moving in a similar direction.

At the same time, the GAO has raised real questions about the measure of savings which the IGs contribute. Perhaps greater uniformity in IG audits, and follow-up on corrective actions can resolve these questions. My concern there would be that we not disrupt individual agencies' initiatives which are working.

In sum, Mr. Chairman, the information supplied by the fine panel before us presents us with the need to move from analysis into action. I look forward to hearing the witnesses recommendations.

OPENING STATEMENT OF SENATOR BINGAMAN

Mr. Chairman, thank you for holding this hearing today to receive testimony on the statutory inspectors general, and to consider whether such offices are needed at other federal departments and agencies.

I have been a strong advocate for the independent IGs already in existence, particularly at the Department of Defense. The IG concept has been a useful one which has saved taxpayer monies in numerous instances. I support the continuation of these efforts as well as consideration of strengthening and expanding their operations. At the same time particular consideration should be given to the creation of IGs in agencies where they do not now exist, specifically the Postal Service, Justice and Treasury.

Thank you, Mr. Chairman.

Chairman **GLENN**. So we welcome you gentlemen this morning and look forward to your statements, either an abbreviated version or in full, whatever you choose. We have with us today the Honorable Richard P. Kusserow, Inspector General, Department of Health and Human Services; he is Vice Chairman of the President's Council on Integrity and Efficiency. And also the Honorable James R. Richards, Inspector General for the Department of the Interior.

Gentlemen, we welcome you. Mr. Kusserow, maybe you could lead off and give us your statement and then we'll have some questions.

TESTIMONY OF RICHARD P. KUSSEROW,[1] INSPECTOR GENERAL, DEPARTMENT OF HEALTH AND HUMAN SERVICES, AND VICE CHAIRMAN, PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY; AND JAMES R. RICHARDS,[2] INSPECTOR GENERAL, DEPARTMENT OF THE INTERIOR

Mr. **KUSSEROW**. Thank you, Mr. Chairman. I certainly appreciate your opening comments. I am the Inspector General for the Department of Health and Human Services, and I also, as you pointed out, serve as the vice chairman of the President's Council on Integrity and Efficiency.

With your permission, I would like to submit my testimony in its entirety for the record, and perhaps I could summarize it to allow the maximum amount of time for questions.

Chairman **GLENN**. That would be fine; we'd welcome that.

Mr. **KUSSEROW**. The inspector general concept arose from a perceived need to have an organized body of auditors and investigators who could be independent of executive branch pressures and effectively and who could focus on promoting economy, efficiency and effectiveness in the executive agencies.

In congressional hearings in 1974 and 1975 Committee staffs looked at the resources that were available in the executive branch to combat fraud, waste, abuse, and we were very much concerned with the fact that the agencies did not have any single responsible unit within them that would focus on those issues.

The 1974 abolition of the non-statutory Department of Agriculture's inspector general plus the fact that there had been some seventy hearings on the issue of fraud, waste, and abuse led Congress to establish a statutory office under Public Law 94-505, which created an inspector general's office in the Department of Health, Education, and Welfare, now HHS, which is the office I now hold.

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[1] See p. 33 for Mr. Kusserow's prepared statement.

[2] See p. 53 for Mr. Richards' prepared statement.

Similar statutory efforts shortly thereafter created an inspector general's office in 1977 in the Department of Energy under Public Law 95-91. Mr. Richards, in fact, prior to his present assignment, was the inspector general at the Department of Energy, and, if you are interested, we can talk about the differences in the two statutes. Ultimately, the concept was extended throughout much of the executive branch with the passage of the Inspector General Act of 1978, Public Law 95-452, which added 12 new inspectors general. Subsequently all new inspector general offices that have been established have been following the model of the 1978 act. So basically we have three different acts, which create some differences among inspectors general.

In furtherance of the goal of independence of these offices, it is the President not the agency head who selects the inspector general, and it is with the confirmation of the Congress. I would also add that it is a nonpartisan appointment, and that we are under the Hatch Act and therefore don't participate in partisan activities.

The IG is directed to report directly and unfettered to both the agency head as well as to the Congress. There is statutory personnel authority given to the IG's to ensure that they can select their own staffs. The IG's were not to be bound by the opinions of their agency's general counsel so they could not be restricted by attorneys' interpretations. No records that were needed to carry out the mission of the office were to be denied, and in fact, subpoena power was confirmed on the inspector general to ensure that compliance for record requests was made.

I'd like now, if I could, to turn to the umbrella organization for the IG's, which has become the President's Council on Integrity and Efficiency (PCIE).

The PCIE is a formal institution; it has been set up to be under the permanent chairmanship of the deputy of the Office of Management and Budget, and it has as its constituent membership, all of the inspectors general. From the ranks of the inspectors general, the vice chairman is selected. Currently I hold the office; my immediate predecessor was Jim Richards, who now serves as chairman of the Legislative Committee of the PCIE.

Also, as members of the Council, are a designee from the Department of Treasury and the Department of Justice as well as the assistant director of the Criminal Division of the Federal Bureau of Investigation. Also the director of the Office of Personnel Management is a member.

Mr. Chairman, with your permission, I will submit for the record a short summary and history of the development of the PCIE and how it's laid out.

Chairman GLENN. Yes, I would like to have that done; we can include that in the record.[3]

Mr. KUSSEROW. We are pleased to report that the PCIE achievements have certainly passed our expectations. Our most recent semiannual report will be available shortly, and, with your permission, I'd like to have a summary of that report submitted for the record.[4]

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[3] See p. 110.

Chairman GLENN. Yes, we'd like to have that.

Mr. KUSSEROW. In the interim, let me cite some of our recent accomplishments, as noted in the last year's semiannual reports where we had recorded for that year 3,950 successful prosecutions, $228 million in investigative recoveries, 1,446 debarments and suspensions of wrongdoers in our programs, $1.8 billion in management commitments to seek recoveries, and some $8 billion in savings and management commitments to use funds more efficiently.

Chairman GLENN. Read those figures again—those are important; that's what we are really after here. Read those again. I know you are trying to hurry through your statement here, but I think it's important we know what you are really saving.

Mr. KUSSEROW. All right, we start back with the successful prosecution of wrongdoers of some 3,950. From our investigations we have recoveries that come as a result of court-imposed fines and ordered restitutions; there are settlements through the court processes. We have gotten investigative recoveries $228 million during that same period.

In addition to that, we encounter in our work contractors and individuals or providers of services that engage in wrongful acts, and we have kicked out some 1,446 as a result of work that we did during that same period.

We had $1.8 billion in management commitment to seek recoveries, and an additional $8 billion in savings and management commitments to use funds more efficiently.

One of the broad purposes of the PCIE is to operate on the premise that whatever problems we have in our own individual agencies may not be confined there but may have government-wide implications, so the result is that we have a series of standing committees which I've identified in my statement for the record. It permits us to look across the entire government at such issues as cash management, debt management, internal controls, different types of systemic problems that we can address government-wide. And these committees do that. And, again with your permission, and for the sake of time, Mr. Chairman, I can submit an abbreviated agenda of our work plan for the current year that would give you an idea of the breadth and scope of the work that we're doing.[5]

In conclusion, just let me say that we believe we've come a long way in this past 10 years, and we hope that our achievements have lived up to the expectations of the Congress. Based upon our experience, we believe that independent and objective audits and investigations can be an asset to the Federal government, and that we would like to look upon ourselves as an extension of good management in the government. We are part of management and would like to work with them to solve some of the problems that are encountered as a result of our independent reviews.

And with that I would like to then defer to my colleague for his comments.

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[4] See p. 113.

[5] See p. 114.

Chairman GLENN. Thank you very much. I'll save my questions here until Mr. Richards' testimony.

Mr. RICHARDS. Thank you, Mr. Chairman. I'm pleased to be here with Dick Kusserow this morning to talk about the inspector general movement, which this committee, of course, started, and some of our accomplishments, and also to talk about three specific subjects that the committee invited me to address.

As Mr. Kusserow has mentioned, I am the current chairman of the Legislation Committee of the PCIE, and Dick succeeded me as vice chairman of the President's Council on Integrity and Efficiency. The Legislation Committee during each Congress prepares a legislative agenda, that is, an agenda of legislation that the inspectors general as a body feel affect the economy and efficiency of the operation of the Federal government and to prevent and detect fraud. We are just beginning this process during the 100th Congress so we really don't have an agenda that we can present today. But we will be developing this over the next several months as major legislation is introduced. We analyze it and determine our position on it. We will furnish to the Committee early on, as we always have, our legislative agenda and those bills that we support as an IG community.

With respect to the committee's request for an update on the impact of the budget process on the inspectors general, I'd like to present to you the results of a seminar that I happened to chair a couple of years ago when I was Inspector General of the Department of Energy. Under the auspices of the PCIE Training Committee, we gathered together all of the inspectors general and their administrative staffs, officials from the executive departments and agencies, OMB officials, and congressional staff to talk about the IG budget process. Out of that we arrived at some rather significant conclusions and observations which I'd like to share with the Committee.

One is that at that time, out of the seventeen statutory inspectors general, seven had line item appropriations and ten had their appropriations in some manner commingled with the rest of the agency.

Most inspectors general at that time indicated that their budget proposals received detailed review at the agency level, that they had an opportunity for a hearing, and for an appeal to the head of the agency. At that time fifteen of the seventeen IG's had an opportunity for a hearing before the OMB examiner, and, finally, fourteen of seventeen IG's were given the opportunity to personally appear and testify before appropriate appropriations committees. I have updated that since that time, and there is one other IG now that does appear before the appropriations committees, so that leaves two that do not.

Finally, I'd like to provide the committee with an update on the progress and the tentative results of the PCIE's study of the effectiveness of internal audit and investigative activities in smaller Federal establishments, a subject that, of course, is on this committee's mind.

The statutory inspectors general have long shared this Committee's concern about the effectiveness of the internal audit and, where they exist, investigative units in the smaller Federal establishments. Executive Order 12031, which in early 1981 created the PCIE, also established an interagency committee called the Coordinating Conference. This is a conference composed of about 25 of the next largest Federal agencies who do not have inspectors general. Under the executive order, we meet at least quarterly with this conference and we coordinate with them to assist them in upgrading their audit function and to coordinate with PCIE in its projects and give them the benefit of the things that we are doing.

Last year, we asked the Coordinating Conference to conduct a preliminary survey of its members to determine their staff size—that is, auditors or investigators—their agency missions, subpoena powers, budgets, and whether the chief auditor or investigator reported to the head of the agency. These are all indicia, of course, of independence.

At the request of this committee we provided this information and other material to the committee staff in connection with the anticipated mark-up of S. 2005, introduced in January 1986 by Senator Roth.

The committee bill, S. 2005, also called for a study on the extent and effectiveness of internal audit and investigative activities at 65 Federal entities. The other 10 agencies here were included in the committee bill, so we did not study those under the study that we are conducting. The PCIE offered to conduct the study regardless of whether the bill was passed, and, after notifying the chairman of this committee, proceeded to do so. Field work on the study is now completed and, although we don't have a final report, I wish to report some of the tentative results of our field study to you.

First, as I said, there are 65 agencies in the executive branch with the combined budgets of about $1.5 billion that are within the coverage of the study. Second, 22 of these 65 agencies do have an internal audit capability ranging from one to nine auditors; however, not all of these audit offices are organizationally independent—the other 43 agencies have no internal audit or investigative staff. Third, most of the 65 agencies do not have a mandate for audit coverage or funds identified in the budget for audit purposes. Fourth, only 5 of the 65 agencies have any investigative capability in the agency. And, finally, it would appear that few of the 65 agencies are routinely subject to internal program audits.

At present, we are analyzing the data and other information produced during our study, and we hope to have a final report staffed through the PCIE in a few months, and we certainly will immediately share that with this committee.

We hope to make some meaningful suggestions about how to improve audit and/or investigative coverage and independence in those agencies that either have small audit/investigative staffs or have none.

This concludes my prepared statement, or a summary of it, Mr. Chairman, and I'd be pleased to respond to questions.

Chairman GLENN. Thank you very much, Mr. Richards, and we will look forward to getting the information both of you suggested on these other areas to include in the report.

Mr. Kusserow, you've testified about the impressive accomplishments achieved by the IG's, and that they save more than they cost. Is there a ratio of dollars saved on that? I know in IRS, we figure in IRS every agent gets his keep back, his expenses back, about 5 to 1, I think was the figure we were given some time ago. Do you have a similar figure for the IG's?

Mr. KUSSEROW. If they risk making that kind of claim, we'll double it; I'd say we are 10 to 1, at least. Let me see if I can clarify a little bit as to how we could arrive at it. If we were looking at the dollars returned as a result of the investigative recoveries through the court system from our investigators, and look at the major commitments including accounts receivable for the inspectors general, it's about $2 billion a year. That in itself would pay for the IG's budgets four, five, or six times over.

Chairman GLENN. Your figure you gave awhile ago I believe was what, $1.8 billion in management commitments to seek recoveries, is that correct?

Mr. KUSSEROW. That's correct, and then, in addition to that, you have approximately another $200 million or more each year that comes as a result of investigations. If you put those two together you will have well over $2 billion. And that $2 billion would certainly fund all the inspectors general many, many times over, maybe six times over.

But in addition to that you have savings and a reprogramming of dollars and a more efficient use of dollars figure that comes out that's much larger, that is rising from $8 billion to $10 billion a year. If you were to factor that in alone, not counting the actual recoveries, you would say that's another 30 to 40 times the budgets of the inspectors general. But, to be conservative, we don't want to outdo IRS too much—we'll just say we do twice as much as they do.

Chairman GLENN. Are IG's involved in whether agencies are carrying out the intent of Congress in executing certain laws where dollars are not involved? Could you go into that a little bit?

Mr. KUSSEROW. Yes, that's a major portion of our responsibilities, and that goes into an area where we are not talking about economy and efficiency any more; we are talking about effectiveness; that is, Congress created an intent, and had the executive agencies carry out that intent you need to know what value has been created? We do those kinds of audits and inspections where you really don't have a quantitative result, because you are evaluating how the program is really working. For example, we have done report on youth suicide that had no dollar implication whatever involved. Rather, it gives an idea as to how our department should posture itself with respect to this very serious problem. For the Surgeon General, we did a report on smokeless tobacco among youth in the United States; again, there was no dollar implication in that, but it certainly helped us to understand who the targeted market is.

Consequently, we do a lot of studies that are not quantifiable.

Chairman GLENN. You also look into areas where agencies or departments might be getting into areas they had no business getting into, that aren't in their jurisdiction. That occurs sometimes. We don't need to go into what's on the front pages of the paper every day right now for us all to know that there are areas that agencies of government get into that they had no business getting into.

Do you get into those? Do you watch and see what activities might be beyond the normal jurisdiction of an agency, and toot the whistle on that also?

Mr. **Kusserow**. Yes, Mr. Chairman; in fact, that's mandated for us, to actually act as a watchdog, to ensure that the department is not wasting their dollars and does not engage in abusive practices. We are not going to tolerate fraud or criminal activity within our agencies or against our agencies. So that all comes under the rubric of our mandate.

Chairman **Glenn**. Your activities cannot go forward unless you have the independence and authority to go across all the lines within the department or the agency that you are monitoring. How do you keep that kind of independence when you are housed at an agency, you are there, you are working with the boss of the agency and so on? How do you keep that kind of independence and not get co-opted into lesser activities than you might otherwise do?

Mr. **Kusserow**. Well, some years ago we heard the story about the engineers that determine that it was impossible for a bumble bee to fly and yet it does. I think we are pretty much getting into a bumble bee situation here.

We are suspended between the executive and legislative branches of the government. On one end of the line, you held the Congress and particularly this committee; and the other end of the line is held by the President. We are suspended in between; if either side lets go, then we've got a problem. We, in fact, walk a narrow line. I'm on the senior staff of the Secretary for HHS; I participate in all the predecisional meetings, and I'm a counsellor to the Secretary on the issue areas that are within the purview of my responsibility. At the same time I must report to the Secretary and simultaneously to the Congress those things which I find are inappropriate, based upon our own work, our own facts, our own evidence, and our own findings.

So it's difficult at times; we have to try to balance those two considerations. I think all in all it works pretty well. I really can't tell you why it works that well, but it works real well, unless the Congress or the President were to drop the line, in which case we'd have problems.

Chairman **Glenn**. Does the Secretary have control over your staff in any way?

Mr. **Kusserow**. No.

Chairman **Glenn**. None whatsoever?

Mr. **Kusserow**. No; in fact, I'm one of the agencies that Jim Richards referred to that has an independent budget line item. I present my own budget to both the House and the Senate. So on the budgetary side they don't exercise that much control. I also utilize the General Counsel of the Department; however, I've got a memorandum of understanding with the General Counsel that I'm not bound by his opinion.

I have also elected to delegate my personnel authorities to the Assistant Secretary for Personnel, but it is my authorities which I can pull back if I find they are not servicing us properly.

Chairman **Glenn**. The figures you give on the savings, the $1.8 billion, the $228 million, and so on, and the $8 billion in efficiency and effectiveness, these are very impressive figures. What procedures do you use to determine the actual savings that have resulted from your work?

Mr. KUSSEROW. Well, Mr. Chairman, for the sake of time let me just submit for the record the full definitions that we operate under on the PCIE in reporting our figures,[6] and maybe I can allude to the two generalized categories on the audit side: one is management commitment to seek recoveries and the other is in the area to more efficiently use funds.

In the recoveries category, we may go out and do an audit and find there's been an inappropriate expenditure—maybe it's among a grantee or a contractor or whatever. We move to disallow those expenditures. Then we move to have management make a decision about that. Under the law they are required to make that decision within 6 months. Once they make that decision and they make the commitment to get the money, they can get it a variety of ways. They can get it through the accounts receivable; they can do an offset if it's an entitlement and the quarterly outlay can deduct the amount that was inappropriate. The bottom line is that they can actually get the dollars back.

The problem, that we have been working on with your sister committee in the House, has been on the issue of can we better define the rules of where the IG leaves off and management takes over. I think generally speaking we feel that it is management's responsibility to collect the money and that Congress clearly stated that we would not operate programs and therefore we don't. So management should go out and collect the funds. And I don't believe that the IG responsibility ends there. I think that we also have a follow-up responsibility, and that is we should audit those collection processes, we should test to make sure they are following through on their commitments.

Chairman GLENN. How do you do that now? When you say, okay, Mr. Secretary, here is where you goofed and here is where some money has to be gotten back, you have a contractor here and we have found this, and go after him. What kind of follow-up is there beyond that? What I'm leading up to is this, and I'd appreciate your advice on this: Does Congress need to require the affected departments or agencies to provide more information to us on implementation or correction of things that you've pointed out. In other words, do you need our big stick from up here behind you, or do you find when you suggest something to a Secretary or to the head of an agency that they jump to and there isn't any question about it, that something happens? Lord knows, I don't want to put a lot of new reporting procedures in, and we've got enough to do on the committee here without a new flow of paperwork coming back that we'd have to then follow up on if it was going to mean anything.

But do you need help in implementing these things, or is the implementation something that is pretty much forthcoming?

Mr. KUSSEROW. It's a little of both. First of all, not every recommendation that we make, does management buy off on. To make sure that it's not swept under the carpet, Congress made it clear in the statute that we are obligated to report those instances to you, in which case we hand you the club and hope that you will review it, and, in fact, if it warrants a circular file, as maybe the department might determine in that case, then they certainly can convince you that that was an appropriate action.

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[6] See p. 46.

The problem that I think you are getting at is a more fundamental one, and that is what happens when management says, okay, we agree with you and we are going to do this—how do you know they actually go about doing it and they do it aggressively?

There are two categories of those kinds of problems. One are the financial findings. Generally speaking, those work pretty well in terms of the resolution process, at least to management following through to start the collection process or the offset. But you also have the non-financial findings where you are making recommendations for improving programmatic operations. That area is a little grayer, and I'm not too sure how well we are doing in that area.

But, again, those are the kinds of things, both financial and nonfinancial findings, that we report to the Congress.

I think where Congress could really be a help to us is probably to clarify better the role of the IG as auditor and management as the collector when they make the commitment to collect money. And also who has the responsibility for follow-up. I think the follow-up responsibility is mainly management. But, at the same time, I think the IG's need to test that concept, as they would test anything else to see if it's working. We should audit that process and we should go out and we should look and see whether or not they are actually doing what they say they are doing.

Chairman GLENN. Give me the rationale for having the chairman of your group, the President's Council on Integrity and Efficiency, also be the Deputy Director of OMB. What is the rationale for that and does it work and what are the pitfalls there?

Mr. KUSSEROW. I don't know what the original rationale was; I don't know whether it was to help the IG's or keep an eyeball on them.

Chairman GLENN. That's locked in, though; that's not just something of choice—that's locked in statute.

Mr. KUSSEROW. That's locked in by presidential order.

Chairman GLENN. By presidential order now?

Mr. KUSSEROW. By presidential order. Prior to that they had a precursor group that was operating under the coordination of the Attorney General. I think we are probably better off with the OMB for two reasons. One is that the Office of Management and Budget is in fact the management arm of the President, and they are supposed to look across the entire government. The Deputy has a major role in management; therefore, in one respect it's good for that so that we can get the perspective of the entire government. Second—and, again, I guess this comes from pecuniary interests of an IG—and that is if we go out and do work and we find there is something wrong government-wide, who should have to take the action? It should be OMB. So what we do is kind of lay an egg right at their doorstep and then, by the fact that they chair the process, I think that it puts a little more impetus behind them doing something about it. So I think it works to our advantage.

Chairman GLENN. I appreciate your answer. I was trying to think of how this would really work if you had somebody in that position who was all involved with these OMB duties and really didn't pay that much attention to his IG hat that he's supposed to wear at the same time.

Mr. **Kusserow**. Well, sometimes, Mr. Chairman, I think a little benign neglect as far as watching the IG's is probably desirable. We don't want them running our program—we run it ourselves. In fact, the way the process has developed is that the various committees are through the selection by the IG's themselves. The chairmen are selected by the IG's, not by the chairman—but by the vice chairman in consultation with their peers.

Chairman **Glenn**. Is this keeping your independence while you do your job—is that a major concern? Or do you need any more protections in that area?

Mr. **Kusserow**. No, I don't think so, but should the day that OMB decides that they don't like IG's—there's another side of OMB that we are concerned about, and that's the pursestrings side. But, as Mr. Richards pointed out, so long as Congress watches the pursestrings and independently makes judgment as to at what level they should fund the IG's, I don't think that represents a threat. But if Congress decides they are not that interested in the process and if OMB were hostile to IG's, then we would have a budgetary problem.

Chairman **Glenn**. Mr. Richards, you testified that you have some tentative findings from the PCIE study of 65 small agencies you mentioned. Could you give us a little more detail on that, what you found and what conclusions you draw from your findings?

Mr. **Richards**. Well, the conclusions that we draw from what we found is that there isn't much of an audit presence in the 65 other agencies.

Chairman **Glenn**. What kind of dollar value are we talking about on their budgets, do you know?

Mr. **Richards**. Of the total of the 65 agencies, we are talking about a combined budget of about $1.5 billion, sort of spit in the ocean as compared to the entire Federal budget. Nevertheless, some of these small agencies have important missions—many of them are single mission, and some of them are regulatory in nature.

But OMB recognizes the importance of audit coverage in OMB Circular A-73, and directs all agencies of the executive branch to have an adequate audit program. It also directs that the audit head, the head of audits, should report to the head of the agency and not have any program responsibility, so that the audit head has in effect solely audit responsibilities and has high visibility in the agency so that audit findings of a significant nature can get to the attention of the head of the agency.

Chairman **Glenn**. Do you get into such things as inventory control? Let me tell you why I asked that question. I don't know whether you followed our testimony yesterday in preparation for this or not——

Mr. **Richards**. Yes, I did.

Chairman **Glenn**. I was flabbergasted yesterday—and I don't know that the press even picked up on it—but the Air Force doesn't come within one-third of knowing the number of missiles and the amount of ammo they have. Now, they can count their airplanes and all that, but they are off by one-third—they could have one-third less ammo, ammunition, than we are providing. I'm on the Armed Services Committee; we are over there spending hundreds of millions of dollars trying to get readiness accounts up for ammo and so on—and they don't even know within a third of what they got. I couldn't believe that.

Now, do you get into things like that, for instance?

Mr. RICHARDS. Yes, we do, Mr. Chairman. In fact, several years ago one of the first significant crosscutting government-wide PCIE projects was accounting for the property in the hands of contractors.

The Defense Department is unique in that it has a lot of property in its own hands. But other large Federal agencies with a large procurement or contractor community, like the Department of Energy which contracts out about 85 percent of its mission, have substantial property, government-owned property, in its hands or in the hands of contractors which must be accounted for.

We did a government-wide property accountability audit led by the Department of Defense, and we found the, I'm afraid to say, the requisite horror stories and lack of accountability for Federal property.

Chairman GLENN. I would think that would be a fertile field for you people to get into and not just in the area—I don't want you out counting beans and bullets out there some place, that would be a waste of your time—but you ought to make sure that there are systems set up to monitor that. That would come under your mandate.

Mr. RICHARDS. Yes; as a matter of fact, a government contractor has to have approved by the agency, for instance at the Department of Energy, a property accountability system before he gets his contract and before he gets his payments.

The problem is in monitoring to see that people are paying attention to the system that they service it adequately so that they can account for major items of property. But we do get into that, yes.

Chairman GLENN. Well, obviously I hadn't read the morning papers. Staff just passed me the Federal page of the morning's Washington Post, which does have an article on the Air Force inventory situation.

Mr. RICHARDS. Yes, I noted that when I read the paper this morning, and that's why I was nodding when I said we were aware of that.

Chairman GLENN. I wasn't aware it was in the paper this morning. The other one—it isn't in your area—that snowed me a little bit yesterday: we sent $27 million in Contra aid, humanitarian aid—they can only track a third of that through the audit process. The Department of State doesn't have records on it. They did track enough to know that $80,000 of it was used for hand grenades. That's real humanitarian aid, that is.

Mr. RICHARDS. The great value of auditors is if you send them out they will go count anything and trace all the paper trails that they can find in order to see where it went.

Chairman GLENN. That inventory control is one I'd think the IG's could see at least there's a system set up to track that, because otherwise we don't know even what we need or what we are doing up here unless we have records of that.

Mr. **Kusserow**. Mr. Chairman, coincidentally, in the State Department, that is the most recent inspector general's office created, it's in the process of being organized, so maybe a year from now you wouldn't have that kind of problem.

Chairman **Glenn**. Senator Stevens.

Senator **Stevens**. Well, Mr. Chairman, I'm here primarily to hear the Postal Service people.

Chairman **Glenn**. All right, very good. Thank you, gentlemen, we may have additional questions from other Senators and we'd appreciate your response to them so we can include them in the record.[7]

And thank you very much, it's been interesting this morning.

Mr. **Kusserow**. Thank you, Mr. Chairman.

Mr. **Richards**. Thank you, Mr. Chairman.

Chairman **Glenn**. I hate to change the order here, but in the interest of accommodating Senator Stevens who has other meetings, Mr. Adair and Mr. Clark, is your time such that you can switch?

Mr. **Adair**. Yes, sir.

Chairman **Glenn**. Okay, fine, we'll do that. Charles R. Clauson, Chief Postal Inspector, U.S. Postal Service, and Kenneth M. Hearst with him, Assistant Chief Inspector, United States Postal Service. Gentlemen, we welcome you; we would welcome your statement or an abbreviation thereof, whatever you see fit to give.

TESTIMONY OF CHARLES R. CLAUSON, CHIEF POSTAL INSPECTOR, ACCOMPANIED BY KENNETH M. HEARST, ASSISTANT CHIEF INSPECTOR, U.S. POSTAL SERVICE

Mr. **Clauson**. Thank you very much, Mr. Chairman, I am pleased to be here today to discuss the Postal Inspection Service and the inspector general concept. I have submitted a detailed statement which I request be made an official part of this proceeding.[8]

I would like to summarize briefly some of the points in that statement and move quickly to answer your questions and the questions of the committee. Let me start by saying that I endorse the concept of inspector general legislation and believe that integrity and independence in audit and criminal investigations are the keys to fighting fraud, waste, and abuse in government. Activities conducted on the scale of U.S. government programs are enormously vulnerable to attack from criminal or unscrupulous individuals or to damage from simple incompetence or negligence. The American people have the right to expect efficiency and integrity from government agencies and we should demand no less.

There is no doubt that government can benefit from having an honest, independent, and competent unit within the organization to ferret out dishonesty, fraud, violations of integrity, or squandering of precious public assets. We are proud to have just such an organization within the U.S. Postal Service. For over two centuries the U.S. Postal Inspection Service and its predecessors have served the

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[7] See p. 47 for Mr. Kusserow's responses to written questions submitted by Senator Roth. Also see p. 60 for responses of Mr. Richards to written questions submitted by Chairman Glenn and p. 68 for responses to written questions submitted by Senator Roth.

[8] See p. 77.

Postal Service and postal customers with pride. This is reflected in a hard-earned reputation for efficiency, effectiveness, and integrity that has won the respect of postal employees, law enforcement and judicial communities, and the American people.

The Inspection Service is headed by the Chief Postal Inspector who is appointed by and reports directly to the Postmaster General. Annually, the Chief Inspector reports to the Postal Service board of governors on activities of the Inspection Service.

The overwhelming percentage of Inspection Service audit and investigative resources are aimed at eliminating fraud, waste, and abuse in the postal system. Last year over 3.3 million work-hours were used to carry out the broad scope of our activities, which include financial, operational, and developmental audits and investigation of attacks on the postal system, such as robberies, burglaries, assaults, fraud, theft of mail, and embezzlement. Our results and positive long-term trends in these areas are detailed in my written statement.

Last year we issued many significant reports to Postal Service management and our investigations resulted in over 6,500 convictions for postal-related crimes. We completed over 17,000 investigations. While the great majority of these cases never make the front pages of newspapers or the network news, some do. Several of our recent cases have received significant publicity. Just to mention a few, the investigation of E. F. Hutton, involving a sophisticated check-kiting scheme which resulted in a guilty plea to a 2,000-count information charging mail and wire fraud. More recently, in the insider trading cases on Wall Street involving Ivan Boesky and others, charging mail fraud and other violations—we are the lead Federal investigative agency pursuing the criminal violations in this matter. That case is ongoing.

The investigation of Peter Voss for criminal activity while Vice Chairman of the Postal Service Board of Governors, the identification and development of evidence uncovering a major conspiracy to manipulate the Postal Service for personal gain, was solely the result of work by postal inspectors. The case demonstrates the important interaction between our audit and criminal investigative efforts. Voss and two conspirators have been convicted; two of them are in prison today, and the investigation is continuing.

The Voss case is particularly important to us because I believe it illustrates clearly how the Inspection Service responded to illegal and corrupt acts at the very highest levels of the Postal Service. There is no need to speculate whether the Inspection Service can act independently against attack on the Postal Service from any level. The record is clear. At no time did the Inspection Service flinch, falter, or sidestep in this investigation because we were dealing with the Vice Chairman of the Board of Governors or several other top postal officials of the Postal Service.

This investigation and others I have referred to in my written statement clearly indicate a degree of demonstrated independence which I think serves as an example in government and fully upholds the concept of independence established in past inspector general legislation.

While I believe the current organization has functioned very well, there are alternatives which would strengthen the Chief Inspector's independence without the disruption inherent in a major reorganization. Examples of such changes include requiring the Postal Service Board of Governors' concurrence in a decision to remove the Chief Inspector or remove the Chief Inspector by a vote of the Governors only, which would exclude the Postmaster General and Deputy Postmaster General. Congress could require the appointment of a new Chief Inspector to have the concurrence of the Board of Governors. Administrative subpoena powers could be provided for agency records. While access to agency records has not been a particular problem for us, administrative subpoena authority would forever foreclose any possibility that the Inspection Service could be denied access to agency documents. The reporting relationship to Congress could be modified. While we have an excellent record of cooperating with Congress and the GAO in providing audit reports and information, structured reporting is possible, for example, by providing a copy to Congress of the annual report given to the Board of Governors on Inspection Service activities, or providing for periodic reports directly to Congress on Inspection Service activities.

I want to reiterate my support for doing everything possible to maximize the success of efforts to identify and eliminate fraud, waste, and abuse. My major point is that the Inspection Service does that job for the Postal Service already, and does it with a record of effectiveness that we think is second to none.

According to former Senator Frank Moss, who was a sponsor of the legislation which led to the first of the departmental inspectors general, the statutory inspector general concept was modelled on the Postal Inspection Service. We were the first and we think we are the best at what we do.

As Chief Inspector I feel responsible for preserving the effectiveness, the reputation, and the stature of a proud organization handed down to me by generations of inspectors. From this perspective, any talk of slicing away integral parts of our responsibilities or drastically reallocating people and resources causes me alarm and, quite frankly, alarm among Inspection Service employees everywhere.

Inspectors cherish our standing within the Postal Service and Federal law enforcement communities. We take special pride in enforcing postal laws, in helping to ensure that one of the great public institutions of our country continues to serve the public.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you. Senator Stevens?

Senator STEVENS. Thank you very much, Mr. Chairman. You know, in terms of your report to Congress, there is no reason to make another report, is there? You indicate that you could have a situation where you could just provide us with a copy of the report you provide to the board of governors. Wouldn't that be adequate?

Mr. CLAUSON. I think the decision here is one that Congress needs to make, Senator. It would be fine with us to supply a copy of that report. On the other hand, we would have no problems meeting whatever requirements for reporting that the Congress might impose.

Senator STEVENS. I understand that, but I don't think we ought to load down additional administrative duties on you. You've got an excellent record, and it seems to me that if you are making a report to the board of governors on your activities, that a copy of that being provided to Congress would be sufficient.

Is there anything you can think of you would put in a report to Congress you wouldn't report to the board of governors?

Mr. CLAUSON. No.

Senator STEVENS. And in terms of the internal relationship of the Postal Service—I know that the chairman of the subcommittee is going to have a hearing later, so there's no use to belabor it—but have you had any problems or access to any documents within the Service?

Mr. CLAUSON. No, Senator, with one exception. During the Voss investigation, we needed access to the minutes of the closed session of the board of governors, and we are able to get it with a subpoena, but the subpoena wasn't necessary to get the documents.

Senator STEVENS. But you had that access.

Mr. CLAUSON. Absolutely.

Senator STEVENS. Through appropriate procedures.

Mr. CLAUSON. Absolutely.

Senator STEVENS. And in effect that was access to really the board that does have the power currently to select the very person you were investigating, right?

Mr. CLAUSON. Yes.

Senator STEVENS. Other than that one instance, can you recall any time when you were not able to get records within the Postal Service?

Mr. CLAUSON. None whatsoever. Postal procedures require that all employees cooperate with the Inspection Service and our access to records.

Senator STEVENS. And who ultimately gave you that subpoena?

Mr. CLAUSON. The U.S. Attorney, District of Columbia.

Senator STEVENS. As a former U.S. Attorney, I don't see any problem about that, Mr. Chairman. My experience with the Postal Service goes back to the time when I was U.S. Attorney, and we had a great involvement with the Postal Service, and the record of Postal Service inspectors I think is impeccable, even to their ability to investigate their own. I remember one case where you actually were investigating some of your investigators.

Mr. CLAUSON. We do that; we have an internal unit that investigates misconduct by inspectors, which occurs, as does I guess in every other segment of the population, and we take swift action to correct whatever has been wrongly done.

Senator STEVENS. Well, Mr. Chairman, I want to make the record clear. As our friend from South Carolina, Senator Hollings, with whom I've served for so many years, has said to me often: If the watch works and it ain't broke, there's no reason to try to fix it. Now, this one is working, and I would like to find out more about why others aren't working when we tried to pattern the other inspectors general after this system. But I would hope we'd all keep in mind that this one has worked over the time I've been here—and I have now been on the committee that overseas the Postal Service for 19 years, and it seems to me that every Member of the Senate who has looked into this system has said it's working, and I hope that we really keep that in mind. I congratulate Mr. Clauson.

I've had meetings with him in terms of the operations of his portion of the Postal Service, and I know the professional manner in which they pursued the Voss and other investigations in recent history.

So I am really here to make that record and to thank you for what you have done, for the working relationship you had with members of this committee, and its predecessor, the Post Office and Civil Service.

Mr. CLAUSON. Thank you very much, Senator.

Chairman GLENN. The newspaper reported that the Voss thing was accidentally discovered—that's their word, accidentally discovered that he was cheating the Postal Service, and so on. Did you have him under investigation at that time, were you on to it? Or was this really as accidental as the papers indicated?

Mr. CLAUSON. Mr. Chairman, that particular report did gain some favor with the press—they seem to like to report those kinds of things. On the day that that trip occurred, and the inspector did travel on the plane with Mr. Voss to Florida, I was at the U.S. Attorney's Office presenting this case for prosecution on the conspiracy charges.

Chairman GLENN. So it wasn't accidental?

Mr. CLAUSON. No, it was not accidental. But it did occur, and it was an interesting story.

Senator STEVENS. And, if you permit me—I assume you have no objection—as chairman of the subcommittee at the time, Mr. Clauson had informed this committee of the possibility that there was serious irregularities on the part of members of the board of governors. As I recall, the first time you didn't tell me who it was.

Mr. CLAUSON. I believe that's true, Senator.

Senator STEVENS. But they were very prompt in letting us know that there was a very serious matter involved in the Postal Service and kept us involved on a reporting basis through that incident. And there were no leaks from our committee either, Mr. Chairman.

Chairman GLENN. Before you leave, one other thing. The bill that we will probably put through involving postal matters will pick up several different things; it will give you, as the IG, subpoena power? Would you want that? Should you have it.

Mr. CLAUSON. As I testified earlier, that has not been a problem for us, but it does guarantee access to pertinent data during our investigations.

Chairman GLENN. Well, it gives you an independence you don't otherwise have, doesn't it?

Mr. CLAUSON. Yes, I believe that's true.

Senator STEVENS. Mr. Chairman, I'd only say that in terms of the subpoena power there should be no problem about the subpoena power when it's dealing with the Postal Service in general. I think when you get into the board of governors' minutes and into the internal workings of that supervisory system, there ought to be some check even on the inspector general—and I don't think Mr. Clauson would disagree with that. It worked in the past, go to the U.S. Attorney, tell him, present a prima facie case, and get the records. When you start literally investigating the people who are running the store, I think it ought to be a little bit different than issuing subpoenas in general.

But I do agree that the subpoena power ought to be very plain, the legal authority for it ought to be plain—and these people ought to have the same authority as any other inspector general in terms of subpoena.

Chairman GLENN. Okay, the thing is set up a little differently in the Postal Service—and I'd appreciate your comment before you leave on this, too, in addition to Mr. Clauson—because all the other IG's are appointed by the President; he imposed them on an agency and they go out and do their thing.

Now, you are appointed by the Postmaster General.

Mr. CLAUSON. Yes, that's true.

Chairman GLENN. You are not as independent quite as some of these other folks, so you are beholden to him. How do you get fired, if you are not doing your job? Do you serve at the pleasure of the Postmaster General?

Mr. CLAUSON. Yes, I serve at the pleasure of the Postmaster General. It's my personal belief that if I am incompetent in my job, the Postmaster General ought to be able to fire me. I don't believe that he can or would——

Chairman GLENN. I'm thinking the other way around. Let's say we have a fouled up Postmaster General some time.

Mr. CLAUSON. I don't believe that he can or would fire me for conducting investigations or audits. All of the recent or the last several Postmaster Generals have been investigated by the Inspection Service; they've known they were being investigated by the Inspection Service. The expectations of the legal system and that of the Congress and of the culture of the Postal Service is that inspectors do these things and that's accepted.

If a Postmaster General being investigated for criminal activity or allegations of criminal activity, or even suspicions of criminal activity—for him to interfere with that investigation sends me a very loud signal that there is indeed a problem there, and also one that I would not hesitate and have not hesitated a second to go to the U.S. Attorney's Office to talk with him.

Chairman GLENN. When you work for him, though, I presume—or maybe you don't—do you go to him and say to him that I am going to conduct a certain series of investigations here and he's aware of them?

Mr. CLAUSON. No, I don't report investigations to the Postmaster General unless it's a matter that I think he needs to be aware of, something he may be asked about or questioned about. But I don't report every investigation to him.

Chairman GLENN. I'm not proposing great huge changes here—as Senator Stevens says, if it ain't broke, don't fix it, and he's had long experience with the Postal Service obviously—he's done a great job in this area, too, I might add. But I've been concerned about the independence of the Chief Postal Inspector—it appears to me that's the weakest at the Postal Service probably of any spot in government. It's the weakest because you are appointed by the PMG, you serve at his pleasure, you can be fired by him if there is an investigation going on that he didn't like. He would be ill-advised to fire you in the middle of an investigation, I think, for the reasons you just stated.

But the independence is not quite the same in the Postal Service as it is with the other IG's that come in from outside appointed by the President and report back to other people.

Senator STEVENS. Mr. Chairman, rather than deal with a question of the line of authority within the executive branch, I would favor, in terms of inspectors general generally, a provision that none of them can be discharged without notice to the Congress for, say, 30 days. That alone would be enough, in my judgment.

I do think there is a possibility that inspector generals could go off the deep end like anybody else, and I think, if anything, the hiring authority ought to have the authority to suspend the person and give notice to the Congress.

Chairman GLENN. Staff tells me that's already in the law.

Senator STEVENS. That was our intention that it was in the law generally; I don't know if it's still there. That is a protection which—and I discussed that at length with your predecessor, Gale McGee, and others over the years. I think that's sufficient. We have a protection for these people.

Chairman GLENN. I don't want to belabor this unduly here, but would you welcome such a thing as having further protection from being fired, such as the Board of Governors having to sign off on a Postmaster General decision to fire the inspector, or something like that? Would that help?

Mr. CLAUSON. I see no operational problem in that whatsoever that the Board of Governors would have to concur in a firing of the Chief Inspector. It does not for me personally create a problem, but in terms of the prospective of independence, it does provide that.

Chairman GLENN. I'm just trying to make an institutional set-up that gives the Postal Inspector the independence and the authority to do what has to be done. If it begins to get to be a little more not quite as positive as it is in other departments when the Postmaster General appoints you and can fire you, then you are under the gun from him if he doesn't like what you are doing.

Mr. CLAUSON. I think that perception is held by a number of people, and some concurrence in the removal by a majority of the board would probably eliminate those perceptions.

Senator STEVENS. I'd have no problem with that. I don't think it's needed, but I have no problem. Thank you, Mr. Chairman.

Chairman GLENN. Senator Roth, the ranking minority member, has joined us.

Senator ROTH. Mr. Chairman, I apologize for not being present at the beginning of the hearing, but we have an important Finance Committee hearing underway at the same time. I am anxious to return to the Finance Committee where we are hearing from Secretary Baker and Mr. Yeutter on trade matters.

I would like, if I could, to have my statement included at the beginning of the hearing record. First of all, I want to say I thought we had a very good hearing yesterday.

Chairman GLENN. Yes, we did.

Senator ROTH. The question of the financial management practices in the Federal government is crucial. I am delighted that you are continuing today to focus on the question of inspectors general.

I think that this has been an initiative—we've had ten years of experience; it's something important that we review. I am delighted that with a bipartisan approach over the last several years we were able to get an IG in the Department of Defense. Like you, I'm interested in seeing the IG approach extended to small agencies. I have requested, as you may know, that the President's Council on Integrity and Efficiency look into some aspects of the small agency IG function, which I think may be helpful to this Committee as a whole.

I have a number of questions that I would like to submit to the various witnesses, with your permission. Again, I want to congratulate you on emphasizing something that I think is a very, very important initiative of this Committee.

Thank you, Mr. Chairman.

Incidentally, congratulations on the 25th anniversary of your flight.

Chairman **Glenn**. I'm trying to forget how many years it is.

Before we let the Postal Service people get away—staff people back here representing the other Senators, any questions you feel you want to get into this this morning?

Okay, fine, thank you very much. We appreciate the next two witnesses' willingness to change time slots here. Before you leave, we may have questions that we want to submit to you for writing to be included in the record. We would appreciate an early reply to that.

Mr. Adair, Mr. Clark, we appreciate your cooperating with us this morning in changing order here so Senator Stevens could get his questions in with his particular interest in the Postal Service.

We have with us now John J. Adair, Associate Director, Fraud Prevention and Audit Oversight Group, Accounting and Financial Management Division of the General Accounting Office, accompanied by David L. Clark, Deputy Associate Director of the Fraud Prevention and Audit Oversight Group.

Mr. Adair, we welcome your statement.

TESTIMONY OF JOHN J. ADAIR, ASSOCIATE DIRECTOR, ACCOMPANIED BY DAVID L. CLARK, DEPUTY ASSOCIATE DIRECTOR, FRAUD PREVENTION AND AUDIT OVERSIGHT GROUP, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. **Adair**. Thank you very much, Mr. Chairman. I will submit my statement in its entirety and summarize it.[9]

We do appreciate the opportunity to appear here today to discuss the inspector general concept and the need for statutory IG's at the Departments of Justice, Treasury, FEMA, the Nuclear Regulatory Commission, and the Postal Service.

The establishment of the statutory IG's has been a bipartisan effort designed to combat fraud, waste, and abuse, and to correct a number of organizational deficiencies in the Federal audit and investigative community. Those included the lack of effective central leadership among multiple audit and investigative units in an agency, auditors and investigators reporting to officials who were responsible for the functions under review, investigators being restricted from looking into certain areas of suspected irregularities, audit recommendations frequently being ignored by agency officials, audit and investigate units severely limited due to inadequate resources, and the lack of procedures to ensure that the agency head and the Congress were informed of serious problems discovered in the agency.

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[9] See p. 99.

GAO strongly supported passage of the Inspector General Act of 1978 and other legislation which created the statutory IG's.

Our reviews over the past several years indicate that the IG concept has been a key factor in correcting deficiencies and in strengthening Federal internal audit throughout the government. IG's have had substantial success in helping to bring about improvements in the Federal government, and this is of course further substantiated by the extensive coverage of IG accomplishments in reports that appear almost daily in the news media.

The Departments of Justice and Treasury are the only two remaining Federal departments without a statutory IG. At the request of Senator Roth, we recently reviewed the need for statutory IG's at Justice and Treasury.

In 1986 we issued reports to this committee recommending that the Congress amend the Inspector General Act of 1978 to establish statutory IG's at both Justice and the Treasury.

We found Justice has numerous internal audit and investigative units fragmented among the Department's various bureaus and offices, lacking central coordination. And, in addition, there is no assurance that the Attorney General or the Congress are advised of the work of many of these units.

Treasury also has numerous internal audit and investigative units throughout the Department. It has a nonstatutory inspector general who reports to the Secretary. However, this inspector general has audit and investigative responsibility over only about 11 percent of the Treasury's operating budget. The remaining 89 percent is audited and investigated by internal affairs and inspection staffs that are located within the various law enforcement bureaus. As a general rule, bureau management has the discretion to decide which audits and investigations are reported outside each bureau to higher levels. So, as a result, there is no assurance that the Secretary of the Treasury or other Treasury management is informed of all audit and investigative issues that could have Department-wide impact. And, of course, in addition, the Treasury is not required to routinely inform the Congress about the Department's audit and investigative activities. Both the Department of Justice and the Treasury have opposed the establishment of statutory IG's, and I would briefly give you their rationale.

The Department of Justice contends that its inclusion under the IG Act would superimpose an inspector general over the present authority of the Attorney General, would allow an independent IG to interfere with or jeopardize ongoing external investigations and prosecutions, and will require the IG to disclose sensitive or classified information.

The Department of the Treasury contends that its inclusion under the IG Act would subject its decisions involving economic, tax, and monetary policy to IG review, thus dampening the free exchange of ideas necessary for development of economic policy. Also it would provide the IG with the statutory authority to interfere with any ongoing investigation being conducted by the Customs, Secret Service, Alcohol, Tobacco and Firearms personnel.

Now, we believe the concerns of Justice and Treasury could be handled by inserting special provisions in the IG Act as was done when a statutory inspector general was established in the Department of Defense. For example, the Inspector General Act allows the Secretary of Defense to prohibit certain IG audits and investigations in order to preserve national security interests.

If the Congress believes that similar protection is needed for Justice and Treasury due to their law enforcement responsibilities, the Attorney General and the Secretary of the Treasury could be given powers similar to those of the Secretary of Defense.

Moving on to FEMA, we believe a statutory IG should be established at the Federal Emergency Management Agency. During a 1985 review, we found that the nonstatutory inspector general experienced an impairment to his independence when he was asked to transfer to another position after conducting sensitive investigations involving high-level FEMA officials.

And we believe that the establishment of a statutory IG in FEMA would help resolve this and other problems we found there.

The Office of Management and Budget, incidentally, has also testified that it supports the establishment of a statutory IG at FEMA.

Now, with regard to the Nuclear Regulatory Commission, we have taken the position in 1981 that the Congress should consider establishing a statutory IG at the Nuclear Regulatory Commission.

We had found that there was a need to strengthen the independence of NRC's audit and investigative unit. We reported that the accident at the Three Mile Island nuclear power plant, and other critical problems, such as the safe disposal of nuclear waste, had heightened the need to enhance public trust in the regulation of commercial nuclear power.

Since 1981 we have performed only limited review work involving the NRC audit and internal investigative unit. However, we have found no reason to change our position on the need for a statutory IG at NRC. The 1986 Chernobyl accident in fact has rekindled interest and concern over safety and environmental issues surrounding our nation's nuclear power facilities, and indicates to us that a need continues for independent oversight and reporting to the Congress on the regulation of commercial nuclear power.

This committee also asked us whether we believe there's a need for a statutory inspector general at the Postal Service. We are currently reviewing the organization and operations of the Postal Inspection Service. Now, our comments, since we are in the process of a review—and I would have to report to the House Post Office and Civil Service Committee—our comments today are tentative with regard to the final position that will be taken in our report.

With that caveat I would point out that our work up until now indicates that many of the concerns that I mentioned earlier in my testimony that led to the creation of IG's in 1978 are not evident at the Postal Service. On the other hand, we feel improvements could be made regarding the independence of the Chief Postal Inspector, and the amount of information provided to the Congress.

We plan to provide a series of alternatives to the Congress that will range from creation of a statutory IG at the Postal Service to actions the Postal Service itself could take to improve the independence and operations of the Postal Inspection Service.

Finally, this committee also asked us for suggestions on how Federal audit and investigative operations in general could be improved, and we would point out that legislation was introduced in the last session of the Congress, in both the House and here by Senator Roth in the Senate, that would have extended IG requirements and protections to internal audit and investigative units in a number of Federal agencies that are not currently covered by such provisions.

While we have not reviewed in detail the needs and problems of every Federal audit entity, and while some audit entities may be considered too small to require such things as subpoena power, we nevertheless believe the general concept of extending the protections and requirements enjoyed by the statutory IG's should be extended to many if not all of the audit and internal units. It's a good one and one that we support.

This concludes my statement, Mr. Chairman, and we would be pleased to respond to any questions you have.

Chairman GLENN. Thank you. Mr. Clark, do you have any statement to make?

Mr. CLARK. I don't, Mr. Chairman.

Chairman GLENN. Thank you. Would you go into some of the smaller agencies a little bit in more detail. You testified that GAO believes in the general concept of extending the protections and requirements enjoyed by the statutory IG's to other Federal agencies without statutory IG's. What problems have you identified in the smaller agencies, not the other ones that you just mentioned—I don't mean by "smaller" Justice and Treasury—FEMA and so on, but all the others, the some 65 others that were alluded to in earlier testimony this morning?

Mr. ADAIR. Well, I think that the information that Mr. Richards presented really was an outgrowth of a report the GAO issued a couple of years ago in which we disclosed that there were a number of agencies that didn't have an internal audit function. There were about 20 that had no audit coverage whatsoever, another 30 or so that had no internal coverage but did have some external, that is, CPA audit coverage, and then there were about, oh, I'd say 40 agencies with internal auditors that ranged in size from a few to a goodly number.

We feel that what the PCIE is doing in this area is going to be something that needs to be looked at by GAO, and by the committee, in terms of what could be done to upgrade and strengthen those agencies with internal audit, and also what can be done with those that do not have any audit capability.

And so we are in effect waiting for the PCIE to complete its work to see what additional things should be done.

I should mention that we feel at a minimum there are three things that should be in place in any entity. You need an internal audit group that consolidates all of the audit or investigative activities that happen to be within an entity so there is central coordination and effective leadership. We think the head of any internal audit unit should report to the head of that agency, or his deputy. And there should be comprehensive coverage by the auditor of the agency's programs and operations.

Chairman Glenn. You mentioned Justice, Treasury, FEMA, NRC, and briefly Postal. The Office of Personnel Management is one that does not have an IG either. Have you ever considered whether OPM should have a statutory IG?

Mr. Adair. We looked at the operations of the OPM nonstatutory inspector general, and we found there were some problems there. We found, first of all, that the IG, the nonstatutory IG's internal audit capability had decreased between 1982 and 1986 by almost 50 percent.

Chairman Glenn. You mean number of people or funding to it, or what?

Mr. Adair. Well, from 15 to 8 staff members, and, according to the acting IG at the time, the reduction of staff meant that he could not effectively audit the multibillion-dollar retirement program run by OPM.

Chairman Glenn. Well—and this is a question I guess I obviously should have asked earlier—who controls their budget, because that determines what they are going to do? Does the agency head control that, or is that independent, under the control of the President?

Mr. Adair. Well, we did a review of the staffing, organization and staffing, of the IG's a couple of years ago, and what we found is that the IG makes a presentation to the agency head of desired staffing levels, and that goes with modification or without modification to the Office of Management and Budget, which makes some determinations, and then it comes to the Congress and so forth.

So there it varies, and, as I think Mr. Richards and Mr. Kusserow indicated, some IG's have the opportunity to testify before Congress on their budgets—it's a line item that's very visible—and some do not.

But the control for the most part is with the agency head and with OMB.

Chairman Glenn. You can control an IG by controlling his pursestrings, though, and that is something that should have some sort of an independent recourse, it seems to me, so that the head of an agency who doesn't particularly want to see investigations at all levels being conducted. On the other hand, you can't just have billions and billions allotted to whatever the IG's might want to do; there has to be a balance here some way. But right now that pursestring on the IG would be controlled by the agency head, is that correct?

Mr. Adair. That's generally correct. And I would say that overseeing these types of issues with the inspector general is a major part of what our organization does. The Fraud Prevention and Audit Oversight Group oversees the work of the inspectors general and we want to make sure that they are independent and have sufficient funds, not only for personnel but for travel, which is another way to constrain an IG's operation. Now, of course, what's happened is if you have a nonstatutory IG, as you do at OPM, he doesn't have the opportunity that the statutory IG's have to make known any problems with budget cuts and so forth. The statutory IG's have the ability to use their semi-annual reports to alert the Congress to any difficulties in the cutting of funds.

Chairman GLENN. You said that the IG's are a key factor. Could you expand a little bit on that? A key factor in auditing and investigating Federal programs, operations, activities, etcetera. Could you expand on that a little bit? Have IG's been a success? Should we strengthen the program? Could you elaborate on how key you think the IG's are to leadership in really getting into the things that we are trying to cut out—fat, fraud, waste, and abuse?

Mr. ADAIR. I think in the early days, to OMB's credit, it called in the IG's and strengthened the resources given to the inspectors general, both the audit and the investigative side, and we've been pleased with the levels of staffing.

Now, in terms of leadership, I think we've seen instances where IG positions have gone vacant for a number of months—you in your opening statement alluded to one such incident—and we think it's critically important that the inspector general positions be filled as quickly as possible whenever vacancies occur, because one of the reasons the Congress passed the IG Act was to centralize the leadership of Federal agencies' audit and investigative functions under a senior official responsible to the agency head. Of course, the IG directs and controls what his organization does; he or she sets the priorities, just the Comptroller General does for GAO or a chairman does for a congressional committee. So we think they are critically important.

Chairman GLENN. Should changes be made in how often IG's are required to report to Congress? Would that give them any more clout, or is that desirable, or would that just add to our paper burden unnecessarily?

Mr. ADAIR. Well, at present we don't see a need for a change. We think the semi-annual reporting requirement has worked very well. This type of requirement instills a certain discipline by ensuring that the IG's are going to report to the Congress on a timely basis. And, of course, that gives the Congress an opportunity to take action whenever needed, as opposed to having to wait a year to receive a report.

So we think that semi-annual reporting should be continued.

Chairman GLENN. And you are overseeing all this on behalf of the Congress, which is your prime job as working for the Congress at this end and overseeing what IG's do. How accurate is the data reported to Congress in IG and PCIE semi-annual reports? Do you have any examples?

Mr. ADAIR. Yes, sir. When the PCIE began issuing their 6-month report, which combines the savings of the IG's, in the early 1980's, we found some problems in areas—data collection and definition of terms, double-counting of certain dollar figures and so forth.

Chairman GLENN. Double-counting what now. On savings or what?

Mr. ADAIR. Well, I could give you an example. I want to mention, though, that since then the IG's and the PCIE have taken a lot of steps to improve their reporting of dollars. However, some of the dollars reported as management commitments to seek recoveries or management commitments to use funds more efficiently simply never materialized. And we issued a 1984 report that describes the discrepancies between savings and so forth that are claimed and actually occur. And we found a very recent example of this in looking at audit resolution in the Department of Defense, which is a review we are doing right now for the House Armed Services Committee. We noticed that Air Force auditors had looked at the purchase of engines for the C5B cargo plane and they had recommended that the Air Force recompute its basis for deciding to purchase an additional 25 engines. They felt that based on their audit, these 25 were not needed.

And the Air Force agreed to do that, they agreed to make the recomputation. So the Air Force audit organization passed on to the Department of Defense inspector general the fact that costs in the amount of $130 million had been avoided. And this was printed in the May 30, 1985, Department of Defense inspector general report as a $130-million savings.

Now, while the Air Force had agreed to recompute, in actual fact what happened was they recomputed and they came up with the same numbers, and they said, well, we don't need to cut back on our purchase of engines. And so that savings didn't materialize.

Now, there is another side to that story. The Air Force auditors went back and, to their credit, negotiated more or less the fact that maybe 12 or 13 of those engines were not needed, and so that actually is what happened. The Air Force agreed to cut out about a dozen of these engines and there was a $70-million savings, which was then reported in a DOD report in November 1986.

So what you had was a $130 million savings reported one year, a $70-million savings next year—and the actual savings was in the area of $70 million.

Now, this I think should be treated more as a success story, because the auditors were very tenacious in getting some resolution here.

But other management commitments don't get implemented, just as we saw with the $130 million initially, and, of course, we never learn of that.

So we are not sure exactly how much of the management commitments to make recoveries are actually implemented.

Chairman GLENN. But from your view are there any changes needed so that Congress has a better idea of agency progress in resolving recommendations of the IG's?

Mr. ADAIR. Well, we think, in following this line of reasoning, that there is a need to change the definition of when audit resolution actually occurs. In other words, the Office of Management and Budget right now says that audit resolution occurs at the point when the audit organization, the inspector general, and the agency management agree on the action that should be taken; for example, when Air Force agreed with the auditors, and said it would recompute the number of engines, that's when they felt that the audit had been resolved, and that's when they would report a savings to the Congress. But we believe that resolution doesn't occur until after the recommended action is completed.

And we have issued a standard on this, which I think I would like to submit for the record, with your approval, showing the way GAO believes audit resolution should be reported.

[The information referred to follows:]

[From Standards for Internal Controls in the Federal Government, GAO, 1983]

EXPLANATION OF THE AUDIT RESOLUTION STANDARD

Prompt Resolution of Audit Findings

Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

The audit resolution standard requires managers to take prompt, responsive action on all findings and recommendations made by auditors. Responsive action is that which corrects identified deficiencies. Where audit findings identify opportunities for improvement rather than cite deficiencies, responsive action is that which produces improvements.

The audit resolution process begins when the results of an audit are reported to management, and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates the audit findings and recommendations are either invalid or do not warrant management action.

Auditors are responsible for following up on audit findings and recommendations to ascertain that resolution has been achieved. Auditors' findings and recommendations should be monitored through the resolution and followup processes. Top management should be kept informed through periodic reports so it can assure the quality and timeliness of individual resolution decisions.

Chairman GLENN. And this has been an issue, too, with OMB and how they report things?

Mr. ADAIR. Yes.

Chairman GLENN. Because, as I've understood it, OMB, once there has been an indication that a savings can be made or something, why, in effect OMB has reported savings even though savings have not actually been realized. The word you used a minute ago was you didn't want to do it until after the action had been completed.

Mr. ADAIR. Yes.

Chairman GLENN. And it seems to me that that's very key; otherwise we are just dealing with pie-in-the-sky figures here from OMB.

Mr. ADAIR. I think that's what GAO's position is also, Mr. Chairman.

Chairman GLENN. In GAO's view has the establishment of IG offices at various Federal departments and agencies lessened the ability of agency heads to run their agencies? In other words, we could inspect so much that nobody gets anything done.

Have the agencies been affected adversely in their ability to do their job by IG operations?

Mr. ADAIR. We have looked at a number of the IG's—that is, as I said, our job—and we have not found this to be the case at all. In fact, we think IG's have really increased the ability of agency heads to run their agencies by pointing out to them problems and deficiencies that need to be corrected.

Chairman GLENN. Would it make a difference in determining a need for an IG if an agency is run by a board or a commission rather than a single administrator? And obviously I'm thinking of the Postal Service as opposed to some of the other agencies.

Mr. **Adair**. I guess basically we feel there should not be a significant difference, although in a theoretical sense I suppose you could argue that independence would be strengthened if an internal audit and investigative unit is accountable to more than a single individual. It would take pretty much of a joint action in that case to fire the inspector general or the head auditor.

Chairman **Glenn**. We talked about the Postal Service a few moments ago here when they testified, and I think you were in the room then at that time and heard that—and, as Senator Stevens pointed out awhile ago, if it ain't broke, don't fix it, and I agree with that. But I've looked at the Postal Service as being an area where there was a little more thin ice there as far as this independence that the IG's have.

Are you concerned about that, or do you think it works all right in the Postal Service and we shouldn't do anything?

Mr. **Adair**. The Postal Inspection Service without question does a good job in its work, and, on the other hand, there have been a lot of problems at the Postal Service, and I think a lot of concerns—a lot of them on the House side—as to whether an inspector general there would be an improvement in terms of the independence, the believability of the reports, and so forth.

And I think where we are at this point is that we feel that something should be done to strengthen the independence of the Chief Postal Inspector either by perhaps having him appointed by the board—there are a number of options, and I think that we will be laying these out in a report to be issued in the next couple of months.

But something I think should be done there, as well as in the area of making the results of audits and investigations available to the Congress. I think that a big part of the problem that the House has is not getting the information on reports as they do with IG reports.

Chairman **Glenn**. With regard to determining the need for an IG, how does the size of an agency, in terms of the number of employees, dollar amount of programs, affect that determination? And I didn't state that very well, but I think you get the gist of it.

Mr. **Adair**. Yes, sir.

Chairman **Glenn**. We have some agencies whose activities are not necessarily involved with big bucks being spent. Now, we are concerned about an IG making an agency more efficient, not only for dollars spent, but for administration of programs and efficiency also. So there are two considerations here.

How do you judge where an IG should go and how large their staff should be, and what's it based on? Obviously it's a combination of both. But what weight do you give to those factors?

Mr. **Adair**. Well, the easy part is when you have a cabinet-level department with big dollars and so forth—that's obvious. I think beyond that it becomes a case-by-case basis, and you have to take into consideration the amount of money involved and the type of programs involved—it could be national security, or as with NRC it could be waste problems, nuclear problems, and so forth—those kinds of things tend to raise concerns regarding the need for a statutory inspector general. It's a variety of things that have to be considered, and generally what we have done, when we have been asked a question about the need for an IG, we've gone into the agency and looked at what it is they do, where their funds are spent, how independent their internal audit is, and so forth, before making any judgment as to whether an IG would be needed.

Those are the factors we think need to be considered.

Chairman GLENN. Let me ask one last question here, along that same line. Do you find any difference in the need for an IG or the effectiveness of an IG as far as saving the government money—do you find a difference from one agency to another in the types of programs? I'm thinking along this line. You have defense contracts that are quite different from the administration of Social Security and the Health and Human Services and Medicaid and Medicare and a whole bunch of things that involve literally hundreds of millions or tens of millions of individuals in administration of programs; you have others that are involved in big bucks in buying specific pieces of equipment. You have Department of Transportation with FAA under it, and some things like that, that are involved with other types of programs.

Do you find a difference between the people-oriented programs, the defense-oriented programs, the service-oriented programs, as far as how they are administered, and where is the most fertile field for saving government dollars? That's a long involved question, but I think you get what I'm after.

Mr. ADAIR. Well, there is an OMB circular, A-73, that addresses that issue, and what it says is that the head of an internal audit organization, or inspector general in this case, needs to take a look at their agency and develop an audit universe, so to speak, of what his programs are—has to consider all the programs under the purview of that department or agency; and then prioritize which are the most vulnerable, so to speak, areas, which are the most fertile areas, if I could use your term; and then, taking that information, develop an audit plan or an investigative plan for investigators as to which areas then should be concentrated on as providing the most benefits to the agency.

I think that's what we find—it happens in every agency with an inspector general, they do go through that planning process, and that's very beneficial.

Chairman GLENN. Do you have anything else? If you were asking questions, what would you ask yourself at this point? Anything else you want to say?

Mr. ADAIR. I just want to say that we do appreciate the opportunity to testify here today, Mr. Chairman, and we are looking forward to working with you and your committee. We go back about 12 years with this group to when there were no inspectors general; there were a lot of horror stories in terms of lack of coverage—and we just really are very pleased with what the Congress has done in this area, and we want to continue to be part of it and to work with your Committee.

Chairman GLENN. I think the whole IG program—and I was part of putting that thing through, I'm proud to say, worked for it back when it went through—and we didn't know how it would work out, quite frankly. But we thought it was a good idea. And I had had a little experience in the military with IG inspections just within a military service, and I knew how you try and shape up a squadron or an air wing when an IG inspection is coming—everybody goes into automatic quiver for about a month ahead and gets everything into order. And I always thought that was a good drill to go through, even though I didn't like it—hated it. But it was a good drill to go through, and so just with that little personal background I worked very hard to get the IG thing through. I've watched it through the years, and I think it's been very beneficial; we want to strengthen it. You in effect are sort of an overseer of the overseers in IG, if you will, so you play a particularly key role within GAO in working with us on this committee in particular, in seeing that this thing works right.

And so you are sort of delving into a number of different IG situations in your audit of what they are doing. Don't wait for a formal hearing in case you have some suggestions to make; we want to know about it. We obviously have the power of the purse and so on here that can either strengthen or weaken this thing, and we want to do whatever is best to strengthen it and make it as effective as possible. We know we can't put tens of billions of dollars into IG's and have IG's floating around looking over everybody's shoulder. There is a happy medium that's most effective for dollars spent, and what we save in the IG's operation. And that's what we are aiming for is that point.

So, with those words, staff, anybody representing anybody else here want to get a burning question in that we haven't already covered? Okay, Senator Roth has some questions for the record. If you would submit those back to us in writing for inclusion into the record, we would appreciate that.

Thank you very much, gentlemen. We appreciate your testimony this morning. The committee will stand in recess subject to the call of the Chair.

[The committee recessed at 11:33 a.m. to reconvene subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT OF RICHARD P. KUSSEROW

INTRODUCTION

GOOD MORNING, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I AM RICHARD P. KUSSEROW, INSPECTOR GENERAL OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES AND VICE-CHAIRMAN OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY. WITH ME TODAY IS JAMES R. RICHARDS, INSPECTOR GENERAL OF THE DEPARTMENT OF THE INTERIOR AND INTERIM CHAIRMAN OF THE LEGISLATIVE COMMITTEE AS WELL AS PAST VICE CHAIRMAN OF THE PCIE. WE ARE HERE TODAY TO PRESENT TESTIMONY ON THE STATUS OF THE INDEPENDENT OFFICES OF INSPECTORS GENERAL . . . FROM ITS STATUTORY CREATION TO ACCOMPLISHMENTS TO DATE.

BACKGROUND

THE INSPECTOR GENERAL CONCEPT AROSE FROM A PERCEIVED NEED TO HAVE AN ORGANIZED BODY OF AUDITORS AND INVESTIGATORS WHO COULD BE INDEPENDENT OF EXECUTIVE BRANCH PRESSURES AND OBJECTIVELY FOCUS ON PROMOTING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE EXECUTIVE AGENCIES.

CONGRESSIONAL HEARINGS IN 1974-1975 FOUND THAT STAFFS RESPONSIBLE FOR COMBATTING FRAUD AND ABUSE IN PROGRAMS OF THE DEPARTMENT OF HEALTH, EDUCATION AND WELFARE WERE SCATTERED AND BURIED IN THE BUREAUCRACY OF THE DEPARTMENT WITH NO SINGLE UNIT HAVING THE OVERALL RESPONSIBILITY AND AUTHORITY NECESSARY TO PROVIDE EFFECTIVE LEADERSHIP.

MOREOVER, ALTHOUGH THE DEPARTMENT THEN HAD MORE THAN 129,000 EMPLOYEES AND WAS RESPONSIBLE FOR THE EXPENDITURE OF WELL OVER ONE-THIRD OF THE FEDERAL BUDGET, ITS CENTRAL INVESTIGATIVE UNIT HAD ONLY TEN INVESTIGATORS WITH A TEN-YEAR BACKLOG OF UNINVESTIGATED CASES, AND THE AUDIT FUNCTION WAS LARGELY DISPERSED IN SUBORDINATE AGENCIES.

THE 1974 ABOLITION OF THE DEPARTMENT OF AGRICULTURE'S NON-STATUTORY OFFICE OF INSPECTOR GENERAL AND MORE THAN 70 HEARINGS ON FRAUD, WASTE AND ABUSE, LED TO THE ESTABLISHMENT IN 1976 OF THE FIRST STATUTORY INSPECTOR GENERAL (P. L. 94-505) THAT WOULD BE INDEPENDENT OF AGENCY PRESSURES AND INTERFERENCE. THIS FIRST OFFICE WAS IN THE DEPARTMENT OF HEALTH, EDUCATION AND WELFARE, NOW HEALTH AND HUMAN SERVICES, THE OFFICE I NOW HOLD.

A SECOND SIMILAR STATUTORY OFFICE OF INSPECTOR GENERAL WAS CREATED AT THE DEPARTMENT OF ENERGY WHEN THAT DEPARTMENT WAS FORMED IN 1977 (P. L. 95-91). MR. RICHARDS PRIOR TO HIS CURRENT APPOINTMENT AT THE DEPARTMENT OF INTERIOR, SERVED AS INSPECTOR GENERAL IN THAT DEPARTMENT.

COMPREHENSIVE HEARINGS WERE HELD IN 1977 ON THE DESIRABILITY OF EXTENDING THE CONCEPT ELSEWHERE IN THE GOVERNMENT. SERIOUS DEFICIENCIES WERE NOTED IN THE AUDITING AND INVESTIGATIVE OPERATIONS OF PRACTICALLY EVERY AGENCY REVIEWED. FURTHER, THERE WERE NO PROCEDURES TO INSURE THAT CONGRESS WOULD BE INFORMED OF SERIOUS PROBLEMS DISCLOSED BY AGENCY AUDITS AND INVESTIGATIONS, AND THERE WAS EVIDENCE THAT AGENCY OFFICIALS FREQUENTLY IGNORED AUDIT RECOMMENDATIONS.

BECAUSE OF INADEQUATELY ORGANIZED RESOURCES, SOME DEPARTMENTS AND AGENCIES HAD AUDIT CYCLES RANGING FROM 5 YEARS TO AS LONG AS 20 YEARS. MUCH OF THE FEDERAL GOVERNMENTS PROGRAMS AND ACTIVITIES HAD NEVER BEEN AUDITED. FEW AGENCIES HAD ANY INVESTIGATIVE CAPABILITY TO POLICE THEIR PROGRAMS.

DESPITE STRONG INITIAL EXECUTIVE BRANCH OPPOSITION, LEGISLATION TO ESTABLISH STATUTORY OFFICES OF INSPECTOR GENERAL IN TWELVE ADDITIONAL DEPARTMENTS WAS APPROVED BY THE CONGRESS AND BECAME LAW AS THE INSPECTOR GENERAL ACT OF 1978 (P. L. 95-452). STATUTORY OFFICES OF INSPECTORS GENERAL HAVE ALSO BEEN CREATED SUBSEQUENTLY IN THE DEPARTMENTS OF EDUCATION, DEFENSE, AND STATE.

CENTRAL TO THIS WAS STATUTORY INDEPENDENCE FROM AGENCY CONTROL AND PRESSURES. THIS MEANT THAT THE INSPECTORS GENERAL WERE NOT TO OPERATE ANY PROGRAMS BUT BE FREE TO OBJECTIVELY REVIEW THEM. THE AUDIT AND INVESTIGATIVE RESOURCES OF THE AGENCIES WERE CONSOLIDATED INTO THE SINGLE FACT GATHERING OFFICE.

IN FURTHERANCE OF THIS GOAL OF INDEPENDENCE, THE PRESIDENT, NOT AGENCY HEADS, SELECT THE INSPECTOR GENERAL WITH THE CONFIRMATION OF CONGRESS. IT IS A NON-PARTISAN APPOINTMENT. THE IG IS DIRECTED TO REPORT DIRECTLY AND UNFETTERED TO THE AGENCY HEAD AS WELL AS TO THE CONGRESS. STATUTORY PERSONNEL AUTHORITY WAS GIVEN TO INSURE THAT THE IG COULD SELECT THEIR OWN STAFFS. THE IGS WERE NOT TO BE BOUND BY OPINIONS OF THE AGENCY'S GENERAL COUNSELS. NO RECORDS NEEDED TO CARRY OUT THE MISSION OF THE OFFICE WOULD BE DENIED, AND SUBPOENA POWER WAS CONFERRED TO INSURE THAT COMPLIANCE TO RECORD REQUESTOR.

PCIE ACTIVITIES

I WOULD NOW LIKE TO TURN TO THE ACTIVITIES OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY (PCIE).

IN DECEMBER 1978, THE PRESIDENT ASKED FEDERAL AGENCIES WHICH DID NOT HAVE STATUTORY INSPECTORS GENERAL TO DESIGNATE A SINGLE OFFICIAL TO OVERSEE THEIR EFFORTS TO ELIMINATE FRAUD, WASTE AND ABUSE. IN 1979, HE ESTABLISHED THE EXECUTIVE GROUP COMPOSED OF STATUTORY IGS AND OTHER FEDERAL OFFICIALS TO COMBAT FRAUD AND WASTE ON A COORDINATED, GOVERNMENT-WIDE BASIS. THIS GROUP BECAME THE FORERUNNER OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY WHICH WAS CREATED BY PRESIDENT REAGAN IN 1981.

THE PCIE IS A FORMAL INSTITUTION PERMANENTLY CHAIRED BY THE DEPUTY DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET. THE VICE CHAIRMAN IS SELECTED FROM THE RANKS OF THE INSPECTORS GENERAL COMMUNITY. CURRENTLY, I SERVE AS VICE CHAIRMAN AND MY IMMEDIATE PRECEDESOR WAS JIM RICHARDS. THE PCIE INCLUDES AS MEMBERS ALL 19 STATUTORY INSPECTORS GENERAL, A DESIGNEE OF THE DEPARTMENT OF THE TREASURY, THE DEPUTY ATTORNEY GENERAL, THE ASSISTANT DIRECTOR OF THE CRIMINAL DIVISION OF THE FEDERAL BUREAU OF INVESTIGATIONS, AND THE DIRECTOR OF THE OFFICE OF PERSONNEL MANAGEMENT. WITH YOUR PERMISSION, I WOULD LIKE TO SUBMIT FOR THE RECORD A SHORT SUMMARY OF THE HISTORY AND DEVELOPMENT OF THE PCIE.

WE ARE PLEASED TO REPORT THAT THE ACHIEVEMENTS OF THE PCIE HAVE PASSED OUR EXPECTATIONS. OUR MOST RECENT REPORT WILL

BE AVAILABLE SHORTLY AND WITH YOUR PERMISSION, WE WOULD LIKE TO HAVE THE RECORD KEPT OPEN UNTIL IT IS FINALIZED. IN THE INTERIM, LET ME CITE SOME OF OUR RECENT ACCOMPLISHMENTS AS NOTED IN OUR LAST YEAR'S SEMI-ANNUAL REPORTS: 3,950 PROSECUTIONS, $228.2 MILLION IN INVESTIGATIVE RECOVERIES, 1,446 DEBARMENTS AND SUSPENSIONS, $1.8 BILLION IN MANAGEMENT COMMITMENTS TO SEEK RECOVERIES AND $8 BILLION IN SAVINGS AND MANAGEMENT COMMMITMENTS TO USE FUNDS MORE EFFICIENTLY.

THE PCIE OPERATES THROUGH STANDING COMMITTEES WHICH REPRESENT THE MAJOR EMPHASIS OF THE INSPECTOR GENERAL COMMUNITY. CURRENT COMMITTEES INCLUDE AUDIT, COMPUTER , INSPECTIONS AND SPECIAL REVIEWS, INVESTIGATIONS/LAW ENFORCEMENT, LEGISLATION, PREVENTION, STANDARDS AND TRAINING WE ARE CURRENTLY INVOLVED IN OVER 30 GOVERNMENT-WIDE PROJECTS IN THE PRIORITY AREAS OF IMPROVED LOAN, CASH AND FINANCIAL MANAGEMENT SYSTEMS, EFFECTIVE USE OF INVESTIGATIVE TECHNIQUES AND CIVIL FRAUD REMEDIES, INCREASED CONTROLS IN AUTOMATED INFORMATION SYSTEMS, AND MAINTENANCE OF TRAINED AND QUALIFIED PROFESSIONAL STAFF. WE WOULD BE

PLEASED TO SUBMIT THE ENTIRE CURRENT PCIE WORK PLAN FOR THE RECORD.

WORKING TOGETHER UNDER THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY, WE HAVE TAKEN ON SOME VERY SIGNIFICANT PROJECTS WITH GOVERNMENTWIDE SCOPE. FOR EXAMPLE, THE PCIE AUDIT COMMITTEE OVERSEES PROJECTS FOR THE PCIE WHICH REQUIRE AUDIT RESOURCES AND EXPERTISE. THE FOLLOWING ARE SOME OF THE AUDIT COMMITTEE PROJECTS:

O THE PCIE HAS COMPLETED A COORDINATED REVIEW OF FEDERAL WEATHER SURVEILLANCE AN DISSEMINATION SYSTEMS TO DETERMINE IF UNNECESSARY OVERLAP AND DUPLICATION EXISTED IN THE DEVELOPMENT OF FEDERAL AUTOMATED WEATHER SYSTEMS. THIS AUDIT REVIEWS SIX MAJOR WEATHER SYSTEMS BEING DEVELOPED BY THE DEPARTMENTS OF DEFENSE, TRANSPORTATION AND COMMERCE. BASED ON ONE RECOMMENDATION ALONE, WE ESTIMATE THAT THE FEDERAL AVIATION ADMINISTRATION WILL AVOID COSTS OF OVER $42 MILLION ON DUPLICATED WEATHER OBSERVATION SYSTEMS. THE FINAL REPORT RECOMMENDS INCREASED COORDINATION OF DEVELOPMENT BETWEEN THE VARIOUS AGENCIES INVOLVED, AND SYSTEMATIC PLANNING AND REVIEW PROCEDURES TO ASSIST OMB AND THE CONGRESS IN BUDGETING AND OVERSIGHT TO PREVENT DUPLICATION IN WEATHER SERVICES.

- OUR MOST RECENTLY COMPLETED STUDY INVOLVED AN AUDIT IN 14 AGENCIES OF THE REPORTING ON NON-WAGE INCOME TO THE INTERNAL REVENUE SERVICE. FEDERAL AGENCIES, LIKE PRIVATED ENTERPRISES, ARE REQUIRED TO REPORT VARIOUS TYPES OF NON-WAGE PAYMENTS ON FORM 1099 TO IRS TO HELP IT ENFORCE THE TAX LAWS. THIS REVIEW IDENTIFIED $9 BILLION IN UNREPORTED INCOME, WITH A RESULTING POTENTIAL $500 TO $600 MILLION IN LOST REVENUES. AGENCY HEADS HAVE BEEN NOTIFIED AND ARE TAKING ACTION TO ENSURE COMPLIANCE WITH FORM 1099 REQUIREMENTS.

- ANOTHER PCIE AUDIT, WHICH HAS GENERATED MUCH PRESS ATTENTION, IS OUR REVIEW OF THE FEDERAL TELECOMMUNICATIONS SYSTEM, WHICH HAS PROVIDED MANAGEMENT WITH THE INFORMATION AND IMPETUS TO REVISE FEDERAL REGULATIONS ON THE USE OF FEDERAL TELEPHONE SYSTEM FOR UNOFFICIAL PURPOSES. THE AUDIT EXAMINED TELECOMMUNICATIONS MANAGEMENT AND CONTROLS PLUS THE EXTENT OF ABUSE OF THE FEDERAL TELECOMMUNICATIONS SYSTEM (FTS) BY EMPLOYEES FOR PERSONAL REASONS. THE AUDIT FOUND 16 TO 22 PERCENT OF ALL LONG DISTANCE CALLS INVOLVED ABUSE OF THE FTS. AS A RESULT OF THESE FINDINGS, GSA IS ISSUING REVISED FTS USE GUIDELINES

WHICH PROVIDE FOR A COMMON SENSE APPROACH TO FTS USAGE, WHILE ALSO PROVIDING BETTER CAPABILITIES FOR AUDITING USAGE.

THE CURRENT PROJECTS UNDER THE AUDIT COMMITTEE INCLUDE SEVERAL REVIEWS INVOLVING CASH MANAGMENT AND INDIRECT COSTS, INCLUDING INTERESTS COSTS CHARGED UNDER STATE AND LOCAL PENSION COSTS, PAYROLL TAX DEPOSITS, AND CASH DRAW DOWNS BY GRANTEES AND CONTRACTORS. MOST OF THESE PROJECTS ARE SCHEDULED FOR COMPLETIONS IN FY 1987.

THE PCIE COMPUTER COMMITTEE WAS ESTABLISHED TO SERVE THE COUNCIL AS THE FOCAL POINT FOR BOTH PROJECTS AND TECHNICAL ASSISTANCE REGARDING INFORMATION TECHNOLOGY. TWO MAJOR PROJECTS WHICH WERE ESTABLISHED EARLY IN THE PCIE'S EXISTENCE ARE UNDER THIS COMMITTEE. THE LONG-TERM COMPUTER MATCHING PROJECT WAS ESTABLISHED TO PROMOTE THE EFFECTIVE USE OF COMPUTER MATCHING AND RELATED TECHNIQUES IN GOVERNMENT'S MASSIVE ENTITLEMENT AND OTHER PROGRAMS. THIS PROJECT, WHICH HAD BOTH FEDERAL AND STATE REPRESENTATIVES HAS ACCOMPLISHED MUCH TO SHARE INFORMATION ABOUT COMPUTER MATCHING, REMOVE TECHNICAL OBSTACLES, AND CLARIFY POLICIES AND PROCEDURES.

AMONG ITS MANY PRODUCTS ARE INVENTORIES OF BOTH FEDERAL AND STATE COMPUTER MATCHING APPLICATIONS, A STATE MANAGER'S GUIDE FOR DECISION MAKING, AND A CATALOG OF FRONT-END AUTOMATED VERIFICATION TECHNIQUES IN STATE PROGRAMS. EARLY ON THIS PROJECT ALSO CLARIFIED THE POLICY REQUIREMENTS FOR COMPUTER MATCHING BY WORKING WITH OMB TO REVISE THE COMPUTER MATCHING GUIDELINES AND STREAMLINE THE PAPERWORK REQUIREMENTS NECESSARY TO RUN A COMPUTER MATCH INVOLVING INDIVIDUAL PRIVACY DATA. WE ALSO PUBLISHED A MODEL CONTROL SYSTEM AND CHECKLIST TO INSURE COMPLIANCE WITH THE PRIVACY ACT IN COMPUTER MATCHING.

ONE OF OUR MOST SIGNIFICANT ACCOMPLISHMENTS WAS THE RECOMMENDATIONS FOR INCOME AND ELIGIBILITY VERIFICATION IN OUR STATE-RUN WELFARE PROGRAMS. THESE RECOMMENDATIONS WERE INCORPORATED IN THE 1984 DEFICIT REDUCTION ACT (DEFRA), WITH SAVINGS PROJECTED BY THE CONGRESSIONAL BUDGET OFFICE OF $1 BILLION OVER 5 YEARS. WE ALSO DEVELOPED STANDARDIZED DATA EXTRACTION FORMATS FOR USE IN STATE COMPUTER MATCHING AND TESTED THESE FORMATS IN EIGHT STATES. REQUIREMENTS FOR THESE FORMATS WERE ALSO INCLUDED IN THE DEFRA REQUIREMENTS, AND THE TESTED FORMATS HAVE NOW BEEN DISSEMINATED TO STATES FOR THEIR USE IN IMPLEMENTING THE REQUIREMENTS.

THE OTHER MAJOR PROJECT UNDER THE COMPUTER COMMITTEE HAS BEEN THE COMPUTER SECURITY PROJECT. THIS PROJECT WAS ESTABLISHED TO GIVE THE COUNCIL A PERSPECTIVE ON THE PROBLEMS OF COMPUTER SECURITY AND DATA INTEGRITY IN GOVERNMENT'S VAST AUTOMATED SYSTEMS. WHILE WE WERE PROMOTING THE USE OF AUTOMATED TECHNIQUES SUCH AS COMPUTER MATCHING, WE ALSO WANTED TO INSURE THAT THE DATA IN THESE SYSTEMS, AND THE SYSTEMS THEMSELVES, WERE APPROPRIATE AND PROTECTED. THE TWO MAJOR REPORTS OF THIS PROJECT STUDIED COMPUTER-RELATED FRAUD AND ABUSE THROUGH A SURVEY OF GOVERNMENT AGENCIES AND INTERVIEWS WITH PERPETRATORS. THE LESSONS WE LEARNED FROM THESE STUDIES HAVE BEEN REPORTED IN PAST HEARINGS OF YOUR SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENTAL MANAGEMENT AND HAVE ALSO SERVED AS THE BASIS FOR NEW PROJECTS, SUCH AS ONE WE ARE CONDUCTING WITH THE PRESIDENT'S COUNCIL ON MANAGEMENT IMPROVEMENT. THIS PROJECT HAS DEVELOPED A MODEL FRAMEWORK FOR MANAGEMENT CONTROL OVER AUTOMATED INFORMATION SYSTEMS WHICH WE HOPE WILL PROVIDE GREAT ASSISTANCE TO MANAGERS TRYING TO COMPLY WITH THE MYRIAD REQUIREMENTS FROM OMB, GENERAL ACCOUNTING OFFICE AND THE CONGRESS FOR CONTROLS IN AUTOMATED SYSTEMS.

THE INVESTIGATIONS AND LAW ENFORCEMENT COMMITTEE SERVES AS THE FOCAL POINT FOR INTERAGENCY PROJECTS OR ISSUE DEVELOPMENT INVOLVING INVESTIGATIONS, CRIMINAL PROSECUTIONS

OR CIVIL SANCTIONS. ITS MOST RECENT ACTIVITY INVOLVED PROVIDING EXTENSIVE COMMENTS TO THE U. S. SENTENCING COMMISSION DEALING WITH PROBLEMS WHEN THE GOVERNMENT IS THE VICTIM OF A CRIME AND WITH THE MORE EFFICIENT RECOVERY OF FINES AND RESTITUTIONS. THIS COMMITTEE WILL ALSO EXAMINE THE CHARACTERISTICS OF SUCCESSFUL PROCUREMENT AND FINANCIAL INVESTIGATIONS TO PROVIDE A TECHNICAL GUIDE TO INVESTIGATORS TO IMPROVE THESE TYPES OF INVESTIGATIONS.

THE OTHER MAJOR PROJECT COMMITTEE IS THE INSPECTIONS AND SPECIAL REVIEWS COMMITTEE WHICH HANDLES QUICK INTERNAL SURVEYS AND SPECIAL ANALYSES WHICH DO NOT NECESSARILY INVOLVE AUDIT OR INVESTIGATIVE EXPERTISE. ONE OF THE CURRENT MAJOR PROJECTS OF THIS COMMITTEE IS THE REVIEW OF SMALL AGENCY AUDIT AND INVESTIGATIVE CAPABILITIES WHICH MR. RICHARDS WILL DISCUSS IN HIS REMARKS. HE WILL ALSO DISCUSS A RECENT PROJECT OF THE TRAINING COMMITTEE RELATED TO THE IG BUDGETARY PROCESS.

OUR CURRENT WORK PLAN CONTAINS OVER 30 PROJECTS WHICH ADDRESS MAJOR CROSS-CUTTING AREAS AS WELL AS INSPECTOR GENERAL SPECIFIC ISSUES. WE WILL BE HAPPY TO SUBMIT A COMPLETE LISTING OF THESE MAJOR PROJECTS FOR THE RECORD.

CONCLUSION

IN CONCLUSION, LET ME JUST SAY THAT WE BELIEVE THAT WE HAVE COME A LONG WAY IN THE LAST 10 YEARS. WE HOPE THAT OUR ACHIEVEMENTS HAVE LIVED UP TO THE EXPECTATIONS OF THE MEMBERS OF THIS BODY. BASED ON OUR EXPERIENCE, WE BELIEVE STRONGLY THAT INDEPENDENT AND OBJECTIVE AUDITS AND INVESTIGATIONS CAN ASSET OTHER AGENCIES IN THE FEDERAL GOVERNMENT. THE OFFICE OF INSPECTOR GENERAL SHOULD BE VIEWED AS AN EXTENSION OF GOOD MANAGEMENT PRINCIPLES AS WELL AS GOOD GOVERNMENT POLICIES. WE WOULD LIKE TO NOTE THAT ALTHOUGH NO AGENCY VOLUNTEERED FOR AN OFFICE OF INSPECTOR GENERAL EACH APPEARS TO HAVE BENEFITED FROM US. WE ARE AVAILABLE FOR ANY QUESTIONS THAT YOU MAY HAVE.

INSPECTOR GENERAL REPORTING CATEGORIES

Source: President's Council on Integrity and Efficiency
Semiannual Progress Reports to the President

Successful Prosecutions

"...individuals who, as a result of Office of Inspector General (OIG) investigations, are either found guilty by a Federal or State court or are the subject of pretrial diversion settlements."

Investigative Recoveries

"Investigative recoveries include: (1) recoveries made during an investigations; (2) out-of-court settlements; and (3) legally or administratively ordered recoveries (e.g., fines, penalties, restitutions, judgments, settlements, etc.)."

Administrative Sanctions

"...actions against individuals/entities doing business with the Federal Government...include suspensions and debarments. Administrative actions [against employees] include significant personnel actions such as terminations as well as formal reprimands, suspensions, and demotions."

Recoveries and Restitutions Arising from Inspector General Findings

"Expenditures to be recovered and/or reprogrammed include: (1) sustained monetary findings management has committed to recover through billing the recipient organization or individual, offsetting payments on existing and future grants and contracts, dollar adjustment resulting from IG recommendations related to interim or postaward work, or obtaining reimbursement from third parties for use in furthering overall program benefits; (2) any additional revenue agency management has committed to obtain because of IG recommendations (e.g., royalties, timber sales, franchise fees, etc.) and tangible goods that management has committed to recover for the Government; and (3) restitutions recovered as a result of commitments to compensate the Government which occur during the course of an IG review."

Savings and Avoidance of Unnecessary Expenditures

"The amounts shown represent funds of resources that will be used more efficiently as a result of actions taken by management or Congress to implement IG recommendations, including: (1) reductions in unnecessary budgetary outlays; (2) deobligation of funds from agency programs or operations; (3) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; (4) costs not incurred by implementing recommended improvements related to agency, contractor or grantee operations; and (5) withdrawal of the Federal portion of interest subsidy costs on loans or loan guarantees, insurance, or bonds.

Questions for Richard P. Kusserow
Inspector General for the U.S. Department of Health and Human Services
from Senator William V. Roth, Jr.

1Q: Can you quantify the accomplishments of the activities of the PCIE for the last part of the year. That is, can you provide information regarding IG productivity in terms of convictions and savings? Please provide examples from your own office as well as from other IG's which illustrate your accomplishments.

A: During the last 6 months of fiscal year 1986, the IGs achieved significant results in our efforts to reduce fraud and waste in Federal programs and operations. These include:

- 2,363 successful prosecutions
- $123.5 million in investigative recoveries
- 1,145 debarments and suspensions of persons or firms doing business with the Government.
- 580 administrative sanctions against Federal and contractor employees.
- $1.0 billion in recoveries and restitution arising form IG findings.
- $6.3 billion in savings and avoidance of unnecessary expenditures.

Our latest semiannual, which was made part of the record, better illustrates our achievements to date. Some examples of our achievements include:

- As a result of Department of Health and Human services/OIG investigations, a total of 64 health care providers have been convicted for defrauding the Medicare and Medicaid programs. A Wisconsin physician had to repay $22,000 for billing for acupuncture procedures which are not covered under Medicare. A hospital administrator in Ohio was sentenced for 5 years incarceration and full restitution of $126,000 for embezzling of Medicare funds. In South Carolina, an investment company owner, his brother and two nursing home offices had to pay $157,000 in fines and restitutions and were sentenced to serve time in halfway houses and several years of probation for kickbacks and false cost reports.

- A major Defense aircraft parts manufacturer pled guilty to a 321 count indictment for defrauding the Government of $6.3 million. The indictment was for filing fraudulent costs and pricing data on contracts for the development, production and sale of aircraft parts. The company agreed to make restitution of $6.3 million, pay a fine of $3 million, pay civil damages of $6.1 million, place $2 million in an escrow account to cover other possible labor miscarriages and pay the $250,000 costs of the Government's investigation. Total recoveries resulting from this Department of Defense/OIG investigation are expected to exceed $15 million.

- A Small Business Administration/OIG preaward audit of a $200,066 proposal for a "Pilot Marketing Assistance Program" led to suspension of the proposed grant award. The audit disclosed that the prospective grantee had an inadequate accounting system which failed to identify, accumulate or properly segregate costs. The audit also found that payroll records did not support proposed labor costs.

2Q: When the IGs were created, it was the intent of Congress to combine, or at least co-locate, the audit and investigative functions of the agencies. In your view, has this joint approach worked. Has the intent of Congress been realized? Please give me some examples of how well this concept has worked? Are all audit and investigative functions of your Department now part of your office?

A: We believe that the co-location of audit and investigating functions under one roof, has worked very well. In the Department of Health and Human Services, both functions are housed in the Office of Inspector General (OIG), under the leadership of Office of Audit (OA) and the Office of Investigations (OI). Together, OA and OI form the independent fact-finding elements of the Department. OA is responsible for providing audit services to all management levels within the Department through the conduct of comprehensive audits including examinations of the operations of the Department and its grantees and contractors. On the other hand, our Office of Investigations provides the Department with investigative services regarding suspected criminal activity and conduct involving Departmental employees or programs.

We, like the other members of the PCIE, have handled numerous cases which require the resources of both units. For example, we recently were involved in the audit and investigation of the Paradyne Corporation, which was engaged in the business of designing, manufacturing, marketing and servicing data communications productions and systems. Our investigative and audit work surfaced information relating to fraud and conspiracy on the part of Paradyne connection with the bid, award and performance of a large computer contract with the Social Security Administration. On December 12, 1985, a 14 count indictment was handed down against the Paradyne Corporation, which subsequently pled guilty to conspiracy. As a result of OIG, audit and investigative efforts, fines, civil penalties and other remedies worth as much as $20 million, including $200,000 to partially compensate OIG for its time and effort in conducting the audit and investigation.

In another case requiring the resources of both our audit and investigative staff, the OIG undertook a 13 month investigation of the Paracedsus Healthcare Corporation (PHC) regarding conspiracy to defraud the U.S. Government by fraudulently billing the Medicare program for expenses that were unrelated to health care.

On December 1, 1986, PHC entered into a plea agreement under which it pled guilty to mail fraud, agreed to pay $4.5 million in reimbursements, fines and interests, and agreed to perform $100,000 in community service to the indigent.

At present, we do not have under our jurisdiction all audit or investigative units presently located in the Department of Health and Human Services. Three units, two of which are properly located in their respective component, include the scientific investigative units of the Center for Disease Control and the Food and Drug Administration, and the auditing unit of the Office for Child Support Enforcement (OCSE). We believe that fulfilling the legislative requirements of the Child Support Enforcement law could better be served if the auditors were part of the OIG. Our auditing network is broader than what presently exists in OCSE. This, coupled with the fact that our auditing unit has more elaborate resources and support systems, argues for the inclusion of the OCSE unit into the OIG audit component. Unfortunately, legislation, is needed to make this transfer.

3Q: Would the basic IG concept work for small agencies? That is, should Congress expand this concept to those agencies that do not have such functions?

A: We have always believed that a modification of the IG concept should be applied to small agencies. Both H.R. 3007 and S. 2005, introduced in the 99th Congress by Chairman Jack Brooks and Senator William Roth, respectively, recognize that there is a need to have an IG like concept in small and independent agencies. We testified in support of this concept. Our forthcoming report, done at the request of the Committee, will further the inclusion of the IG concept in these agencies.

We believe that because of the limited resources within these agencies, designating a statutory Inspector General to provide reimbursable audit and investigative support through a formal memorandum of understanding represents the most efficient and effective means of implementing this concept. If, after a reasonable period of time, we have demonstrated the need for a statutory IG at these agencies, enactment of such legislation would appear to be a mere technicality.

At bare minimum, the audit activities of the agencies, both internal and external, should be combined to be able to report unfettered and uninfluenced to the agency head. Furthermore, as part of the oversight responsibilities of Congress, they should also have access to the findings and recommendation.

4Q: While much has been accomplished by the IGs during the last 10 years, an on-going concern anytime a new office is created, is the avoidance of duplication. Along these lines, can you explain how you develop your work activities to assure that duplication by you, other IGs or GAO is minimized.

A: With the OIG at the Department of Health and Human Services, the avoidance of duplication of projects has been our goal since our inception. Upon coming on board as the Inspector General in 1981, I instituted a process of developing a 2-year workplan which lays out all audit, investigative and inspections work products for the upcoming 2-year cycle. This document is shared not only among all components within the OIG, but also among the various components of the Department, with the General Accounting Office (GAO) and where appropriate, with key Federal investigative agencies. Through this procedure, we are able to assess which projects are important to the Department, which projects should be postponed and which projects are under review by GAO. We have had significant success with this procedure. In addition, copies of this workplan, once finalized are available to members of Congress.

We and GAO make a conscious effort not to audit the same entities during the same period of time: our plans incorporate the work of one another in a complementary and nonduplicative manner.

This process has been incorporated into the planning function of the PCIE. Through the various standing committees, we are able to plan the different government-wide projects so that IG is aware of the projects being undertaken by the committees. A copy of our work plan has been made available to the Committee. A conscious effort has been made in these agencies associated with the statutory IGs to consolidate the audit functions of the agency into the OIG, while the day-to-day accounting work in support of program operations is left to the agencies. In summary, the agencies accountants are responsible for keeping the financial records, while OIG's auditors are responsible for independently reviewing those records. According to GAO's "yellow book" standards, the only place independent audit can occur in the IG's office.

5Q: One of the primary objectives in establishing the IG system and extending it to other agencies was to insure independence and objectively. Based on your experience, how has this worked out? Do you know of any concerns with other IG offices?

A: In the Department of Health and Human Services, we have been quite fortunate to have had Secretaries who believe in the IG concept and have worked with us to insure that our independence and objectively are maintained. I believe that this statement can be generally said for the other Inspectors General.

The history of the IG concept created the expectations that acceptance by Department heads would be adversarial. However, I believe that the opposite has occurred. As can be noted from our semiannual reports, we have not only met the intent of Congress in reporting ineffectiveness and inefficiency, but we have found that many of the Department heads are using our work to make recommended management changes. In addition, I have seen the Congress increasingly use our audit and investigations in new legislation.

The concept of independence is predicated on the assumption that: (1) both the Executive and Legislative Branches of Government are vested in the interest of promoting economy, efficiency and effectiveness as well as eliminating fraud, waste and abuse; and (2) through the IGs' reporting to both branches of Government, there are guarantees that findings will not be denied the American public nor would the independent reviewers be punished for exposing problems.

6Q: As you know, one part of the IG bill I introduced in the last Congress, addressed the so-called technical amendments among the IGs at various agencies. If another IG bill was introduced this Congress, would you recommend that we include these same technical changes? Would you modify any of these issues?

A: We were pleased with the changes introduced last year in the IG amendment legislation. Many of the concerns we have had as a result of the differences between the various acts creating offices of Inspector General were resolved in that legislation.

Ensuring the independence of Inspectors General or of audit directors of smaller agencies continues to be one of our chief concerns. While last year's IG amendment legislation made great strides to foster that independence, the Committee may wish to do more this year. For example, "removal for cause" language could be afforded all IGs, especially if such language is given to some. We believe that such protection may be useful for all IGs. Similar protection could be considered in allowing the IGs to assign, promote and remove OIG senior officials (Senior Executive Service staff) without interference from the agency head. Such clarification would give the IG greater independence in directing senior staff to carry out audits or investigations.

With respect to implementing the IG concept in small agencies, we have found that the overwhelming majority of small agency audit activity involves reviews of grants or contracts of entities outside of the agency, that is, of agency grantees or contractors. We believe that legislative changes affecting small agencies should cover not only internal but also external (grantee or contractor) work. Accordingly, as a point of clarification, consideration might be given to referring to "internal audit directors" as simply "audit directors." This change might reduce confusion about the object of auditors' and investigators' work in the small agencies.

While many of the small agencies are involved in the complexities of both grant and contract reviews, they do not have the capability to perform proper reviews that meet the audit standards established by the Government Accounting Office (GAO). We believe that it might be useful to authorize or require such agencies to enter into agreements with independent audit units that meet the GAO standards (i.e., Offices of Inspectors General) which could provide the expertise and management structure needed to comply with GAO standards. Since most small agencies have grantees or contractors audited by IGs, having them enter into agreements with IGs to perform audit work is practical.

STATEMENT OF JAMES R. RICHARDS

Good morning, Mr. Chairman and members of the Committee. I am James R. Richards, Inspector General at the Department of the Interior. At present, I am serving as Chairman of the Legislation Committee of the President's Council on Integrity and Efficiency. I am pleased to be here today to respond to the Committee's request for information on the status of the various offices of the statutory Inspectors General. Specifically, I will address the Committee's requests for suggestions on how Inspector General operations and independence might be improved, an update on the impact of the budget process on the statutory Offices of Inspector General, and the results, to date, of the PCIE's study of the effectiveness of internal audit and investigative activities in smaller federal establishments.

The Committee has asked for suggestions to include recommendations based on our own experience and/or proposals endorsed by the PCIE for how IG operations and independence can be improved either through legislative or administrative measures.

In the past, we have supported, through testimony and close cooperation with appropriate Congressional Committees as well as the Administration, a number of legislative initiatives that we believed would enhance the effectiveness of our offices as well as to enhance the Government's ability to achieve greater economy and efficiency and to detect or prevent fraud in its programs and operations. Many of these initiatives have been enacted into law, such as the Program Fraud Civil Remedies Act of 1986 and the False Claims Reform Act. We appreciate this opportunity and we look forward to working with this Committee to eliminate waste, fraud, and abuse in Government programs and operations.

We do have some suggestions today that we believe would enhance the effectiveness of our operations. First of all, however, we would like to describe to the Committee the process by which the Inspectors General develop a consensus of views that results in a legislative agenda supported by all of us.

As you know, one of the responsibilities of the Inspectors General is to review existing and proposed legislation for its impact on the economy and efficiency in the administration of programs and operations administered or financed by their departments or agencies or on the prevention and detection of fraud and abuse in such programs and operations. In the course of this review during the last several years, the IGs, with the leadership and coordination of the PCIE Legislation Committee, selected major pieces of legislation that had impact on all of our offices and establishments to form our legislative agenda. Through detailed consultation among all of the Inspectors General and their staffs, the Legislation Committee staff coordinated the development of a consensus view on those bills which became the IGs' legislative agenda for the Congress. The Legislation Committee then notified the appropriate Congressional Committees of the IGs' position, and individual Inspectors General provided testimony on the various bills from the perspective of the Inspector General community.

In addition, through consultation with the Office of Management and Budget, we provided our views on proposed legislation to the Administration. Throughout this process, we found that we had no substantive problems since, at the same time, OMB was preparing the management report for the President to send to the Congress. Indeed, we were pleased to believe that our views played some role in the development of the legislative package contained in that report.

At present, we have just begun this process for the 100th Congress. Consequently, we are unable to offer the Inspector General perspective on any particular piece of proposed legislation. However, in response to the Committee's request, we would like to offer some suggestions that we believe would enhance our effectiveness.

First of all, we believe that all IG personnel should be authorized to administer oaths and affirmations as necessary in the performance of their functions. At present, only employees in IG offices at Executive departments may be so authorized and only when they are conducting investigations of a particular nature. Certainly, the extension of this authority to all IG offices would greatly enhance the effectiveness of all of our operations. In addition, we would support efforts, as we have in the past, to conform the IGs in the Departments of Energy and Health and Human Services and the Railroad Retirement Board to the Inspector General Act of 1978.

With respect to the Committee's request for an update on the impact of the budget process on various statutory offices of Inspector General, I would like to present the following information.

In May of 1985, while Inspector General at the Department of Energy, my office prepared and presented an executive development seminar for the PCIE entitled "Inspector General Budget Preparation and Advocacy." 1/ During this seminar we discussed the Inspector General budget process with the Inspectors General and their administrative staff, top management people from various Executive departments and agencies, OMB officials and Congressional staff. During this seminar, it was revealed that, of the then statutory Inspectors General:

--- 7 IGs had their own line item appropriation.

--- The other 10 IGs had their budgets commingled with their agencies.

--- The most often stated reason for wanting or maintaining their own line item appropriation was independence and management control over resources.

--- The most often stated reason for the budget to remain commingled was the additional flexibility to appeal for funds during the fiscal year to take care of unplanned expenditures.

--- Most Inspectors General indicated that their budget proposals received detailed review at the agency level and that they had an opportunity for a hearing and an appeal to the head of the agency.

1/TRAINING COMMITTEE, PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY, BUDGET GUIDE FOR OFFICES OF INSPECTORS GENERAL (MAY 1985).

- --- 15 of 17 IGs had an opportunity for a hearing before the OMB examiner.

- --- 14 of 17 IGs were given the opportunity to personally appear and testify before appropriate Appropriations Committees.

Since that seminar in May of 1985, the Congress has created a new statutory Inspector General at the U. S. Information Agency and has restructured the Office of Inspector General at the Department of State. (The Inspector General position at the Railroad Retirement Board had been created but had not been filled at the time of the seminar. Thus, the Board was not included in our survey.) In the past several years, the Chairman of the PCIE has tracked the IG budgets and has interceded, when necessary, to insure that IG budgets are treated evenhandedly at OMB.

Finally, I would like to provide the Committee with an update on the progress and tentative results of the PCIE's study of the effectiveness of internal audit and investigative activities in smaller Federal establishments.

The statutory Inspectors General have long shared this Committee's concern about the effectiveness of the internal audit and, where they exist, investigative units in small Federal establishments. Executive Order 12301, which in early 1981 created the President's Council on Integrity and Efficiency, also established an interagency committee called the Coordinating Conference of PCIE. This Conference is composed of the officials with the smaller Executive agencies who are responsible for coordinating the efforts to eliminate fraud and waste. These officials, usually the chief auditors of about 25 agencies, meet quarterly with the PCIE.

Last year, we asked the Coordinating Conference to conduct a preliminary survey of its members in order to determine staff size (auditors and/or investigators), agency missions, subpoena powers, budgets and whether the chief auditor/investigator reported to the head of the agency. At the request of this Committee, we provided this information and other material to Committee staff in connection with the anticipated markup of S.2005, introduced in January of 1986 by Senator Roth.

The Committee bill called for a PCIE study on the extent and effectiveness of internal audit and investigative activities at 65 Federal entities. (The other ten agencies were assigned some IG duties under the Committee bill and therefore were excluded from the study.) The PCIE offered to conduct the study regardless of whether the bill was passed and after notifying the Chairman of this Committee, proceeded to do so. The field work on the study has now been completed and we hope to have a final PCIE report within the next several months. As soon as the report is finished, we will submit it to the Committee. Even at this early state, we can share some tentative findings of the study with the Committee.

1. There are 65 agencies in the Executive Branch with combined budgets of about $1.5 billion that are within the coverage of the study.

2. Twenty-two of these agencies have an internal audit capability ranging from 1 to 9 auditors each. However, not all of these audit offices are organizationally independent. The other 43 agencies have no internal audit or investigative staff.

3. Most of the 65 agencies do not have a mandate for audit coverage or funds identified in the budget for audit purposes.

4. Only 5 of the 65 agencies have any investigative capability in the agency.

5. It would appear that few of the 65 agencies are routinely subject to internal program audits.

At present, we are analyzing the data and other information developed during our field work to frame criteria to be used in determining which duties and responsibilities in the Inspector General Act of 1978 might be usefully assigned to the small Executive agencies. When the PCIE report is completed, we hope to make meaningful suggestions as to how to improve the audit and investigative capability of the other small agencies.

This concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and the Committee may have.

QUESTIONS FOR JAMES R. RICHARDS, INSPECTOR GENERAL OF THE U. S. DEPARTMENT OF THE INTERIOR FROM SENATOR JOHN GLENN

1. Q. In your testimony you mentioned some tentative results from the study of internal audit and investigative activities in "small agencies." Could you explain in more detail your findings? What conclusions do your draw from them?

A. Yes. As I said, our study covered 65 agencies. Twenty-two of these 65 have some audit capability, ranging from 1 to 9 auditors each. Of course, that means 43 of the 65 agencies have no auditors, no internal audit capability. Only 2 of the 65 had any statutory mandate for internal audit; only a few had funds in their budgets earmarked for internal audit work. Eleven of the 22 appeared to be organizationally independent.

I think that we can conclude that most of these 65 agencies do not have adequate audit coverage and where audits are being conducted, there is an absence of independence.

2. Q. Are these "small agencies" complying with administrative policy with respect to adequate, independent audit coverage?

A. No, they are not in compliance with Executive branch policy as expressed in OMB Circular A-73. That policy states that all "agencies are responsible for providing adequate coverage of their programs...." That policy also requires that the audit organization should report to the agency head or his or her deputy. However, we found inadequate audit coverage in a large majority of the "small agencies" as well as an absence of independence.

3. Q. We have observed that on some occasions the Administration has been slow to fill vacancies in IG positions. What impact does it have on the effectiveness of an IG office when such a lengthy vacancy occurs?

A. I can't really answer that with respect to all of the IG offices. I do have some personal experience with such a situation, however. Before I was appointed and confirmed in my office at Interior in January 1986, that office had not had a Presidential appointee since September 1984. In addition, when I became Inspector General at the Department of Energy in 1981, that office had been vacant for just over 8 months. In each case, and I think this is a tribute to the professionalism of the career staffs in the Offices of Inspector General, work went on. Audits were done, and reports sent to management and to the Congress; investigations were conducted with resulting indictments, convictions, and administrative actions.

I would say that the only thing that suffers during such extended vacancies, naturally, is leadership. Under such circumstances, career staff won't make major policy shifts in the direction or use of IG resources. Also, I think it may be somewhat more difficult for career IG staff to deal as effectively with senior management and the Congress as a Presidential appointee might.

4. Q. With regard to the impact of the budget process on IG operations, what are the relative advantages and disadvantages of the two budget methods -- individual line item appropriation versus commingled appropriations?

A. Most Inspectors General believe that the primary advantage of having their own line item appropriation is independence and management control over resources.

On the other hand, the most often stated advantage of commingled appropriations is the additional flexibility to appeal for funds during the fiscal year to take care of unplanned expenditures.

This flexibility is lost by having a line item appropriation for, as you know, an organization with a line item must seek a supplemental appropriation if additional funds are needed during the fiscal year. This can be a lengthy, time-consuming process which, most likely, will not result in the additional funds needed since the IGs are, typically, very small offices. It is more difficult to get the attention of OMB for a supplemental appropriation request for only a few hundred thousand or a few million dollars for something like travel or equipment than for a major program asking for increased funding.

Many IGs believe that the line item appropriation enhances the independence of their offices as well as giving them greater management control over their resources. In particular, IGs appreciate the opportunity to personally appear and testify before appropriate Appropriations Committees.

5. Q. Which of these methods do the IGs prefer?

A. I believe that, overall, the IGs prefer the line item appropriation.

6. Q. Why aren't all Inspectors General now authorized to administer oaths or affirmations? Which ones don't have that authority, and is it important that they do have such authority?

A. The Inspector General Act of 1978 does not provide authority to administer oaths or affirmations to any of the Inspectors General established by that Act; nor does the legislation establishing the Inspectors General at the Departments of Health and Human Services and Energy provide such authority to those offices. However, other sources of this authority have been used to permit some Inspector General personnel in most of the offices to perform this function. For example, pursuant to 5 U.S.C. Sec. 303, employees of an executive department assigned to investigate frauds or attempted frauds on the United States or irregularities or misconduct by a Federal employee may administer oaths to witnesses during the investigation. It should be noted, however, that this authority is confined to certain kinds of investigations conducted by our offices. The definition might not, for example, include certain investigations of applicant representations, false statement cases, irregularities by banks in relation to instruments under guaranteed loan or loan insurance programs, among other cases. Moreover, the definition is limited to investigations, which prevents the use of oaths or affirmations by auditors in departments or agencies alike to obtain sworn certifications as to the completeness of a return on subpoenas issued during an audit. Finally, this source limits the authority to

Inspector General investigators in Federal departments, thus excluding those investigators in IG offices in agencies. These offices must look to other sources for such authority. Such authorities as do exist are scattered, diverse, and often limited and inconsistent. Indeed, the Inspector General at the Environmental Protection Agency, has no source for such authority at all.

We believe that uniform and independent oath and affirmation authority would enhance the effectiveness of our offices. My own experience, both as a federal prosecutor and as an Inspector General at two departments, indicates that this is one of the most useful tools that an investigator has whether the investigation results in criminal prosecution or civil or administrative action. Coverage of IG personnel under the Inspector General Act of 1978 would provide a needed, independent, uniform and comprehensive basis for the exercise of this authority by those personnel in both departmental and agency IG offices.

7. Q. Why is it important for all statutory Inspectors General to be under the 1978 Inspector General Act?

A. At present, three of the statutory Inspectors General are under separate legislative enactments -- the Department of Health and Human Services, the Department of Energy, and the Railroad Retirement Board. In several respects, these statutes vary between each other and in relation to the Inspector General Act of 1978, including the provisions concerning appointment of Deputy Inspectors General, legislation and regulation review functions, and receipt of whistleblower complaints. Certainly, placing all of the statutory Inspectors General under the 1978 Inspector General Act would establish consistency among the various Offices of Inspector General, which are, in all other respects, similarly situated. Further, since we act in concert on a number of matters, such as reporting of our activities _in toto_, as we are here today, we believe that it would be more efficient for all of us to operate under the same statute.

QUESTIONS FOR JAMES R. RICHARDS, INSPECTOR GENERAL OF THE U.S. DEPARTMENT OF THE INTERIOR FROM SENATOR WILLIAM V. ROTH

1. Q. Based on experience in your office, can you quantify the accomplishments of your activities? That is, can you provide information regarding IG productivity in terms of convictions and savings?

A. Certainly, the Inspectors General can provide some quantitative results of the impact of our audit and investigative activities. Indeed, each of our offices provides such results, among other things, to the heads of our respective departments and agencies and to the Congress in our semiannual reports.

With respect to my office at the Department of the Interior, we have issued some 3605 audit report in the last 5 years which identified $326.2 million in cost efficiencies that might be achieved in the Department's programs and operations. We also reported $115.9 million wasted or lost in those programs and operations, and we identified some $330.8 in potential recoveries for the Department. Our Office of Investigations, during the same period, reported 184 indictments and informations resulting from its investigations. Ultimately, these resulted in 134 convictions. In addition, our investigations resulted in 1034 administrative actions. During the last 5 years, our investigations resulted in $6.3 million in judgments and restitutions.

2. Q. When the IGs were created, it was the intent of Congress to combine, or at least to put in one place, the audit and investigative functions of the agencies. In your view, has that joint approach to these responsibilities worked? Has the intent of Congress been realized?

A. The consolidation of audit and investigative functions under a single high-level official has proved to be most effective. It has provided a single focal point for the efforts in each agency to combat waste, fraud, abuse and inefficiency in the agency's programs and operations. The Inspectors General have been able to develop and coordinate audits and investigations of specific cases, as well as patterns, of waste and corruption cutting across programmatic boundaries in their departments and agencies. By having the two functions under the same roof, there is no organizational impediment to the referral of information from the auditors to the investigators or *vice versa*. Furthermore, the joint efforts of investigators and auditors in particular white collar crime cases involving complex financial transactions are often essential to the efficient and successful conclusion of such cases. I firmly believe, based on my experience as Inspector General in two departments and as a former Federal prosecutor, that the joint, cooperative efforts of auditors and investigators working under a single coordinating leadership is the most efficient means of detecting and preventing waste and fraud in Federal programs.

3. Q. While much has been accomplished by the IGs during the last 10 years, an on-going concern anytime a new office is created is the avoidance of duplication. Along these lines, can you explain how you coordinate your audit workplan with GAO? Or is duplication occurring?

A. In our office at Interior, as I'm sure is the case in other Inspector General offices, audit planning is an on-going process. The planning process is carried out in accordance with OMB Circular No. A-73 which sets forth policies and procedures to be followed in audits of Federal programs and functions, including guidance for the development of an annual audit workplan and coordination of audit work with all Federal audit organizations, including the GAO.

Specifically, we provide our annual audit plan to the GAO, OMB, and other interested audit groups prior to the start of the fiscal year to minimize audit duplication. We also receive quarterly audit plans from GAO which we use in our planning to avoid unnecessary overlap. In addition, at the start of each audit, we do preliminary survey work to determine the scope of the audit, to identify prior audit coverage of the subject area, and to determine if GAO or other audit organizations are currently auditing the subject area. If we find that other audit groups are involved, arrangements are made to avoid duplication of audit effort, usually by one audit group deferring or cancelling its planned audit.

Consequently, we believe that very little duplication of audit effort by our offices, GAO, and other Federal audit organizations is occurring. In the few instances where some small amount of duplication may occur, it is due to specific statutory or other responsibilities of the particular Office of Inspector General, GAO, and other interests.

4. Q. One of the primary objectives in setting up the IG system -- and in extending it to other agencies -- is to ensure the independence and objectivity of the IGs as they do their work. Based on your experience, has this worked out? Has this congressional objective been achieved in practice?

A. Congress sought to ensure the independence and objectivity of internal audit and investigative functions of the departments and agencies by placing responsibility for these activities at a high official level exclusive of programmatic or operational responsibility for the departments or agencies. In my view, making the Inspectors General Presidential appointees only under the general supervision of the heads or, to the extent delegated, the officers next in rank of the establishment involved, is one of the keys to achieving this goal. The other key components are removal of any responsibility for the programs and operations of the establishments' mission from the Inspectors General and direct referral by the Inspectors General of evidence of violations of Federal criminal law to the Department of Justice. These particular aspects of the legislation establishing the Offices of Inspector General have enabled the auditors and investigators in those offices to perform their functions free from interference by the officials responsible for the programs being audited and investigated. The degree of independence and objectivity sustained by the statutory Inspectors General has engendered open, honest audits pointing out waste and inefficiency in the programs and operations of our establishments, as well as professional, thorough investigations uncovering fraud and abuse in those programs and operations. These honest evaluations have led to improvements and corrections in the programs and operations of our departments and agencies, and many people have learned that crime, such as fraud, against the programs in our departments and agencies doesn't pay. So, yes, I would say that this congressional objective has been achieved in the offices of the statutory Inspectors General.

5. Q. Based on your experience, would you comment on extending the IG concept. That is, should the Congress place IGs in agencies where they do not currently exist?

A. First of all, I think that extension of the two basic elements of the Inspector General concept -- independence and objectivity -- into the internal audit and, where it exists and is necessary, investigative functions of agencies, would be beneficial since the effectiveness of these activities would most certainly be enhanced thereby. As I stated earlier, the statutory Inspectors General have long shared this Committee's concern about the effectiveness of the internal audit and investigative units in Federal agencies that do not have statutory inspectors general.

However, the various agencies and the respective internal audit and/or investigative units that would be affected by a "blanket" extension of the primary IG legislation, the Inspector General Act of 1978, vary widely in size, mission, need for increased responsibility, and capability of assuming increased duties and responsibilities. Given the diversity of the entities that would be affected, I think that careful consideration of the actual needs of the individual agencies and capability of the various audit units existing in some of the should be a major part of the process of extending the full panoply of duties and responsibilities in the Inspector General Act of 1978.

As you know, the PCIE has undertaken a study of the effectiveness of internal audit and investigative activities in 65 of the smaller Federal establishments. At present, we are analyzing all the data and other information that we gathered during the study to help us develop criteria that could be used in determining which of the duties and responsibilities in the Inspector General Act of 1978 might be usefully assigned to each of these small Executive agencies. As soon as this process is completed, we will provide the Committee with the results of the study and our conclusions in the final report of the study.

6. Q. In your testimony, you referred to the report I requested of the PCIE on audit and investigative activities in small agencies. You also shared some of the preliminary findings. Can you comment on any preliminary conclusions you have drawn from these findings and do you have a timeframe for completion of the report?

A. Yes. We do have some preliminary findings based on the data gathered during the field work for the study that I described earlier. Although we are presently analyzing this data and other information that we gathered and therefore have not reached any final conclusions, I think it is safe to say that, generally, we have found an overall absence of independence in the internal audit and investigative operations, where such capacity exists at all, in these agencies. Such findings, at a minimum, arouse concern about the effectiveness of the internal audit and investigative operations and, I believe, suggest that careful consideration should be given to determining the steps necessary to improve the situation. When the PCIE report is completed, we hope to make meaningful suggestions as to what these steps might be. We hope to have the report completed within the next several weeks.

STATEMENT OF CHARLES R. CLAUSON
CHIEF POSTAL INSPECTOR, U.S. POSTAL SERVICE
BEFORE THE COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
FEBRUARY 19, 1987

Mr. Chairman, I am Charles R. Clauson, Chief Postal Inspector of the U.S. Postal Service. I am pleased to be here at your invitation to discuss the Postal Inspection Service and the Inspector General concept.

I endorse wholeheartedly the view represented by the Inspector General Act of 1978 and subsequent Inspector General statutes that integrity and independence in audit and investigation are the keys to fighting fraud, waste, and abuse in Government. Activities conducted on the scale of U.S. Government programs, with many billions of dollars of public money at risk, are enormously vulnerable to attack from criminal or unscrupulous individuals or to damage from simple incompetence or negligence. The American people have the right to expect efficiency and integrity from government agencies and we should demand no less.

There is no doubt that every government agency can benefit from having an honest, independent, and competent unit within the organization to ferret out instances of dishonesty, violations of integrity or the squandering of precious public assets. We are proud to have just such an organization within the Postal Service. For over two centuries the U.S. Postal Inspection Service has served the Postal Service, the public, and postal customers with pride and a hard-earned reputation for efficiency, effectiveness, and integrity that has won the respect of postal employees, the American people, and the law enforcement and judicial communities.

The challenge, to which generations of Postal Inspection Service employees have enthusiastically risen, is to help maintain the integrity and trust that all Americans place in their primary written communications medium. The U.S. postal system is the world's largest and one of its most complex and far-reaching businesses. Every citizen, from Florida to Alaska and Maine to California, is touched in some way by the Postal Service almost every day. Almost 800,000 employees in every state and county provide service to the American public from almost 40,000 facilities, large and small. In fiscal year 1986, the Postal Service handled over 147 billion pieces of mail and received revenues of more than 30 billion dollars.

The American people justifiably expect a lot from their postal system in terms of service and efficiency - and they get it. When compared to other postal systems throughout the world, the U.S. Postal Service is one of the least costly and most effective (in spite of the challenges of distance and geography we face). The American public trusts and relies on the Postal Service and people's perceptions are positive. A 1996 Roper report found that of 11 Federal agencies, the Postal Service received the highest favorable ratings.

To what can we attribute the strength of Postal Service finances, services, cost control, and public perceptions? Certainly the dedication and hard work of our many employees is the most important element. In addition, there is no question that the Inspection Service makes a strong contribution to service, efficiency, and integrity through audits and investigations intended to focus on cost and service and reduce fraud, waste, and abuse.

To serve this large and complex enterprise, the Inspection Service has approximately 4,000 people. Of those, approximately 2,000 are directly involved in conducting audits and investigations under Federal statutes concerning attacks on the postal system and illegal use of the mails. Another 1,400 are responsible for the physical security of postal employees, facilities, and the mails. The remaining employees serve in various support functions including clerical, data processing, legal, and technical and forensic laboratory support. The Inspection Service is headed by the Chief Postal Inspector, who is appointed by the Postmaster General and is one of only five officers reporting directly to the Postmaster General. The Chief Inspector is assisted by three Assistant Chiefs for Audit, Criminal Investigations, and Administration and five Regional Chief Inspectors. The Regions are divided into 39 Divisions across the United States.

Inspection Service functions are divided broadly between audit and criminal investigations (although there is considerable overlap and interaction between the groups) with approximately 20% of our resources being devoted to audit work and 80% to criminal investigations and crime prevention. Broadly stated, our audit policy is to "provide independent examinations and evaluations of postal activities as a constructive and protective service to management." Our criminal investigations policy is "to prevent and investigate criminal attacks upon the postal system" with our efforts directed towards providing a safe and secure postal environment for employees, customers, assets, and mail. To a large degree our policies are intended to ensure that postal customers everywhere can mail their letters with full confidence in the mail system and rely on their letters being delivered as quickly as possible and at the least cost.

Inspection Service audit programs are divided into financial, operations, response, and developmental audits.

Criminal programs include external crimes (attack from outside elements), internal crimes (attack from within), mail fraud, prohibited mailing investigations (including bombs, drugs, and pornography), and crime prevention. Attached are a pie chart and program statements which lay out in more detail our programs and resource commitment.

As mentioned earlier, the key to success for the Postal Service is to continue providing service which its customers regard as valuable and reliable. To a large extent, the value and reliability of service in the customers' eyes depends on trust and confidence that the Postal Service will protect the mail and deliver it promptly and efficiently. The nature of the postal job requires a very substantial independent internal audit and investigation capability throughout the postal system.

The overwhelming percentage of resources devoted to audits and investigations conducted by the Inspection Service are aimed at eliminating fraud, waste, and abuse in the postal system. The Inspection Service now devotes over 700,000 hours annually to internal audits. Its financial audits are a necessary underpinning for the annual review of Postal Service financial statements by an independent certified public accounting firm as required by law. Operations audits are an essential tool for maintaining internal controls and identifying opportunities for improved financial and service performance. Developmental audits of new, highly complex, and costly automated systems provide for security, audit trails, improved efficiencies and sometimes lead to major criminal investigations (such as the recent case involving Board of Governors Vice Chairman Peter Voss).

In the area of criminal abuse, internal investigations now include some 500,000 hours per year to protect the mails from thefts by postal employees and contractors. Another 200,000 hours are devoted to embezzlement and similar investigations. Investigations of workers' compensation frauds require some 45,000 Inspector hours per year. Investigations to rid the Postal Service of employees illegally distributing drugs to their fellow workers took over 95,000 workhours last year. This does not even touch on the resources devoted to robbery, burglary, and assault investigation or the 573,000 hours devoted to fraud investigations last year (which would include fraud against the Postal Service as well as fraud against the public).

These functions are complex and interwoven. The skills, knowledge and experience gained in auditing postal systems are the same skills, knowledge and experience necessary to identify and develop criminal cases involving attacks on the postal system. Frequently, audits lead to major criminal investigations. The Postal Service has the

Chief Inspector as the single head of audit and criminal investigations. In practice, audit work and investigations each inform the other and there is often no clear demarcation between an internal and an external criminal investigation. Employees or members of the public who have a problem or complaint or some information to pass along can call the same local Inspector's office no matter what type of situation may be involved.

The reputation of the Inspection Service as a highly respected Federal law enforcement agency stands on a record built by Inspectors all the way back to the days of stage coach and train robberies and continuing forward to today's highly technical and complex white collar frauds. Our standing is high with U.S. Attorneys (many of whom have told me and other managers that Postal Inspectors are among the very best Federal agents they work with), judges, and courts and other Federal agencies. In fact, I participate in regular meetings of the heads of Federal agencies including the FBI, Secret Service, ATF, Customs, U.S. Marshals, and others, and I take pride in the respect and standing Inspectors have in the eyes of these other Federal law enforcement agencies. Throughout the years, Inspectors have participated in a number of major Federal investigative task forces and programs (for example, we are a lead agency in a task force to eliminate the scourge of child pornography from our nation). We are proud to be an integral part of the Federal law enforcement community.

Our reputation is hard-earned and based on years of top-notch law enforcement work. Consider the range and impact of the cases we investigate and the positive trends we have achieved:

- Postal robberies have been reduced from over 300 in the mid-1970s to 126 in 1986 - one of the lowest postal robbery rates in the Western world.
- Postal burglaries, in spite of enormous exposure in almost 40,000 facilities, have been reduced from 921 burglaries in 1980 to 585 in 1986.
- Murder of postal employees, our highest priority, has been solved in 68 of the 69 incidents since 1973. These are often tough investigations, such as the investigation of the brutal kidnap and murder of the Postmaster of Van Wert, Ohio, which required 17,000 hours of investigation by 40 Inspectors before the two criminals were convicted.
- Checks stolen from the mails. Each year the Postal Service delivers hundreds of millions of Treasury checks and other negotiable instruments and valuables. Of those checks, 140,000 were reported stolen in 1982. Last year we reduced those losses to 88,000. Of particular concern to us in this area are so-called "volume attacks," where large volumes of mail are stolen from a vehicle or collection box

to get checks or other valuables. Inspectors have reduced these volume attacks from over 3,000 in 1982 to 1,100 in 1986.

* In addition to these four types of cases, Inspectors aggressively and effectively investigate mail bomb cases, child pornography, employee involvement with narcotics distribution, workers' compensation fraud, assaults on employees, and other Federal violations which undermine the Postal Service and threaten postal customers.

The investigation of these crimes led to over 6,500 convictions in fiscal year 1986. Of these, 1,336 were convictions of postal employees for abuses of the postal system. When you combine these efforts and results with our internal audit program, it strikes me that the Postal Service is protected by an effective net of control to detect and eliminate fraud, waste, and abuse.

While the majority of our cases do not result in headlines, they serve to protect the mails, postal employees, and the public. However, many of our cases do result in high exposure because their complexity and national impact catch the attention of the media and the public. Some of our recent cases which you have no doubt heard of include the following:

* Investigation of E. F. Hutton which resulted in a

guilty plea to a 2,000-count information.

- Insider trading cases in New York involving Ivan Boesky, and others. This case, which is continuing, represents a serious attack on the financial foundation of this nation. We are the lead Federal investigative agency pursuing criminal violations in this matter.
- Investigation of Peter Voss for criminal activity while Vice Chairman of the Postal Service Board of Governors. The identification and development of evidence uncovering a major conspiracy to manipulate the Postal Service for personal gain was solely the result of work by Postal Inspectors and demonstrates the important interaction between our audit and criminal investigation efforts I mentioned earlier. Voss was convicted, is now in Federal prison, and the investigation is continuing.

In addition to serving as a case history on how the Inspection Service net of audit and criminal investigations works to bring internal fraud into the open, the Voss case also serves to demonstrate how the firm foundation of the Inspection Service within the culture of the Postal Service and through ties to the law enforcement community provides the best assurance of its independence. Can the Inspection Service operate independently within the Postal Service? The Voss case provides a clear example of how the Inspection

Service responds to illegal and corrupt acts by top officials. In the Voss case the Inspection Service became suspicious of activities of Governor Voss and pursued those suspicions relentlessly through investigation, arrest, and conviction of the Vice Chairman and other members of the conspiracy. Moreover, the complexity and impact of this conspiracy led to investigations of the Chairman of the Board of Governors, two other Governors, the Postmaster General, the Deputy Postmaster General, the Associate Postmaster General, and other high-level postal officials. Let me strongly emphasize that at no time did the Inspection Service flinch, falter, or sidestep in its responsibility to the Postal Service, the public, and our system of justice.

The Voss conviction is not an isolated situation. We have also recently conducted the following investigations of high-level postal officials:

- Investigation of the Chairman of the Board of Governors for alleged conflict of interest.
- Investigation of the Postmaster General for alleged conflict of interest and alleged procurement violations.
- Investigation of a Senior Assistant Postmaster General for potential violations in automation acquisition.
- Investigation of an Assistant Postmaster General for violations in automation acquisition.

- In addition to these investigations, almost 100 other investigations of Postal Career Executive Service managers have been conducted over the past four years and several of those cases resulted in removal from the Postal Service, criminal convictions, or both.

What are the implications of the Voss case and the others I mentioned with regard to the independence of the Inspection Service? I would answer that by making three important points:

1. Where in government is there a better record of demonstrated independence and results achieved?
2. Throughout the Voss investigation there was no interference on the part of management and to have envisioned such interference would have been unthinkable. Interference would have brought the focus of the investigation and the weight of the Justice Department to bear on anyone so foolish to have interfered.
3. Inspection Service independence is assured by a complex of well-entrenched values:
   - Our position and status with the Federal law enforcement community.
   - The culture of the U.S. Postal Service, with a background of over a century of deference to the Inspection Service in matters of integrity and

criminal violations, providing strong organization-wide support for Inspection Service initiatives.

- The expectations and demands of Congress, the media, and the public. The potential for exposure to any of these serves as a powerful deterrent to any interference or pressure.

While we feel that the Inspection Service fully and successfully meets the need for independence and integrity in audits and investigations, we recognize that it may be useful from time to time to consider whether improvements can be made. The Postal Service has long benefited from what we consider a model of what an Inspector General operation should be, it has been a source of continuing surprise to me that legislation has been introduced in the House to split up and reorganize the Inspection Service, apparently from the perspective that the Postal Service does not yet have an Inspector General-type program, or does not have a good one.

Our primary concern is that, as we seek to advance goals we all share, the successful operation of the Postal Service and Inspection Service not be disrupted. Tinkering with a mechanism which has been tuned to run smoothly over a great many years is risky and needs to be approached cautiously. People everywhere rely upon and trust the mail system and the part played by the Inspection Service. It is not hard to imagine how the American public, our economy, and our ability to communicate with each other would suffer if a well-intentioned reform attempt should cause any interruption or uncertainty in the effective, efficient, and secure mail system which people have come to expect.

We were asked to identify possible alternatives which might strengthen the Chief Inspector's independence and authority without the disruption inherent in a major reorganization. While I do not believe structural changes are necessary to accomplish what we all want to achieve, the following are several alternatives:

- The Chief Inspector could be made removable by the Postmaster General with the concurrence of the Board of Governors.
- The Chief Inspector could be appointed with the concurrence of the Board of Governors.
- The Chief Inspector could be made removable by a vote of the Governors only (without the Postmaster General or Deputy Postmaster General).
- Administrative subpoena power could be provided for agency records. While access to agency records is not a problem, an administrative subpoena power would forever foreclose any possibility that the Inspection Service could be denied access to needed documents.

- The reporting relationship to Congress could be modified. While we have an excellent record of cooperating with Congress and the GAO in providing audit reports and information, additional reporting is possible such as:
  - Providing a copy to Congress of the annual report given to the Board of Governors on Inspection Service activities.
  - Providing a periodic report directly to Congress on Inspection Service activities.

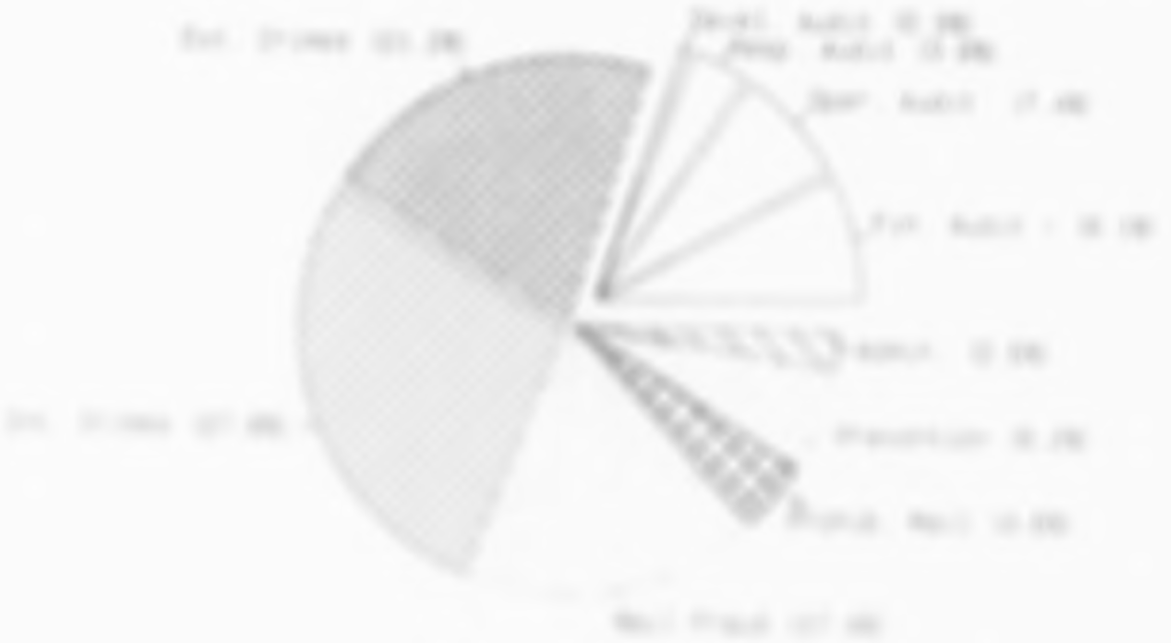
I want to reiterate my strong support for doing everything possible to maximize the success of efforts to identify and eliminate fraud, waste, and abuse. My major point is the Inspection Service does that job for the Postal Service already and does it with a record of effectiveness that we think makes us the best outfit operating today with Inspector General-type responsibilities. It is no accident that for more than two centuries Inspectors have achieved a solid record and reputation in performing the functions to eliminate fraud, waste, and abuse. According to former Senator Frank Moss, who was a sponsor of the legislation which led to the first of the departmental Inspectors General at the Department of Health, Education, and Welfare, the statutory Inspector General concept was modeled on the Postal Inspection Service. (Statement of Hon. Frank E. Moss in Mail Fraud/False Representation, Hearings on H.R. 3973

Before the Subcomm. on Postal Personnel and Modernization, House Comm. on Post Office and Civil Service, Serial No. 97-51, 97th Cong. 2nd Sess. 29 (1982).) We were the first, are surely the largest, and we think the best at doing this kind of job for the American people.

As Chief Inspector I feel responsible for preserving the effectiveness, reputation, and stature of a proud organization handed down to me by generations of Inspectors. From this perspective, any talk of slicing away integral parts of our responsibilities or drastically reallocating people and resources causes me alarm and, frankly, alarms Inspection Service employees everywhere. Inspectors cherish our standing within the Postal Service and Federal law enforcement communities. They are proud of our history and achievements. We all take special pride in enforcing the laws which Congress has enacted and in helping to assure that one of our great public institutions continues to serve the public in the manner you have intended.

I will be pleased to respond to your questions.

INSPECTION SERVICE RESOURCES



FY 85

AUDIT POLICY

AN AUDIT PROGRAM THAT WILL PROVIDE INDEPENDENT EXAMINATIONS AND EVALUATIONS OF POSTAL ACTIVITIES AS A CONSTRUCTIVE AND PROTECTIVE SERVICE TO MANAGEMENT.

FINANCIAL AUDIT

- 8.1% OF INSPECTION SERVICE RESOURCES;
- EXAMINATION OF FINANCIAL TRANSACTIONS, ACCOUNTS, AND REPORTS, INCLUDING AN EVALUATION OF COMPLIANCE WITH POLICIES, APPLICABLE LAWS AND REGULATIONS ENABLING THE INSPECTION SERVICE TO RENDER AN OPINION OF THE NATIONAL CONSOLIDATED TRIAL BALANCE AS A BASIS FOR THE POSTAL SERVICE'S FINANCIAL STATEMENTS. PROVIDE A SIGNIFICANT PORTION OF THE DATA RELIED UPON BY THE EXTERNAL AUDIT FIRM EMPLOYED BY THE BOARD OF GOVERNORS, ARTHUR YOUNG AND CO., FOR INDEPENDENT CERTIFICATION OF THE ANNUAL STATEMENT OF FINANCIAL CONDITION OF THE POSTAL SERVICE.

OPERATIONS AUDITS

- 7.4% OF INSPECTION SERVICE RESOURCES;
- A MANAGEMENT CONSULTANT SERVICE TO ASSIST MANAGEMENT IN THEIR EFFORTS TO OPERATE AN EFFICIENT, ECONOMICAL AND RELIABLE POSTAL SERVICE. OUR CURRENT PROGRAM IS MULTI-TIERED WITH RESOURCES DIRECTED TOWARD SYSTEMS/ PROCEDURES, FUNCTIONAL AREAS, AND INSTALLATIONS. THE EXTENT AUDIT RESOURCES ARE DIRECTED TOWARD EACH TIER IS BASED ON THE NEEDS, CONCERNS, AND PRIORITIES OF VARIOUS MANAGEMENT LEVELS.

RESPONSE AUDITS

- 3.8% OF INSPECTION SERVICE RESOURCES;
- CONDUCTED IN RESPONSE TO MANAGEMENT REQUESTS OR SITUATIONS GENERATED BY THE DAY-TO-DAY OPERATIONS OF THE POSTAL SERVICE.

DEVELOPMENTAL AUDITS

-- .9% OF INSPECTION SERVICE RESOURCES;

-- PROVIDE MANAGEMENT WITH AN INDEPENDENT EVALUATION OF MAJOR NEW OR REDESIGNED SYSTEMS. OUR PRIMARY ROLE DURING THE DESIGN, TESTING AND IMPLEMENTATION PHASES OF A PROJECT IS THAT OF A REVIEWING AUDITOR TO DETERMINE THE ADEQUACY OF AUDIT TRAILS, SYSTEM SECURITY AND PROJECT CONTROL.

CRIMINAL INVESTIGATIONS

POLICY

TO PREVENT AND INVESTIGATE CRIMINAL ATTACKS UPON THE POSTAL SYSTEM. EFFORTS ARE DIRECTED TOWARD PROVIDING A SAFE AND SECURE POSTAL ENVIRONMENT FOR USPS EMPLOYEES AND CUSTOMERS.

EXTERNAL CRIMES

-- 21.2% OF INSPECTION SERVICES RESOURCES;

-- THE OBJECTIVE OF THE EXTERNAL CRIMES PROGRAM IS TO PROTECT THE POSTAL ENVIRONMENT FROM EXTERNAL ATTACK.

INTERNAL CRIMES

-- 27.8% OF INSPECTION SERVICE RESOURCES;

-- THE OBJECTIVES OF OUR INTERNAL CRIMES PROGRAM ARE TO PROTECT THE MAIL FROM THEFT OR MISTREATMENT WHILE IN THE CUSTODY OF THE POSTAL SERVICE; PROTECT POSTAL PROPERTY AND FUNDS; AND PROVIDE A SECURE POSTAL ENVIRONMENT FOR OUR EMPLOYEES AND CUSTOMERS.

PROHIBITED MAILINGS

-- 4.6% OF INSPECTION SERVICE RESOURCES;

-- THE OBJECTIVE OF THE PROHIBITED MAILINGS PROGRAM IS TO PROTECT THE PUBLIC FROM UNLAWFUL MAILING OF HARMFUL ARTICLES SUCH AS BOMBS, DRUGS, AND PORNOGRAPHY.

MAIL FRAUD

-- 17.4% OF INSPECTION SERVICE RESOURCES;

-- THE OBJECTIVE OF THE MAIL FRAUD PROGRAM IS TO PROTECT THE AMERICAN PUBLIC FROM BEING VICTIMIZED BY FRAUDULENT SCHEMES WHERE USE OF THE MAIL IS AN ESSENTIAL PART OF THE SCHEME.

CRIME PREVENTION

-- 6.2% OF INSPECTION SERVICE RESOURCES;

-- OUR FIRST PRIORITY IS TO PROTECT POTENTIAL VICTIMS OF POSTAL CRIME -- POSTAL EMPLOYEES, POSTAL CUSTOMERS AND THE POSTAL SERVICE ITSELF.

PREPARED STATEMENT OF JOHN J. ADAIR

Mr. Chairman and Members of the Committee:

We appreciate the opportunity to appear here today to discuss the need for statutory inspectors general at the departments of Justice and the Treasury, the Federal Emergency Management Agency, the Nuclear Regulatory Commission, and the Postal Service.

Under the Inspector General Act of 1978 and other legislation, statutory inspectors general (IGs) have been established in 19 departments and agencies. The creation of these statutory IGs has been a bipartisan effort that has improved the effectiveness of the federal government.

The establishment of statutory IGs was designed to combat fraud, waste, and abuse, and to correct numerous organizational and procedural deficiencies in the federal audit and investigative community. These deficiencies included

-- the lack of effective central leadership among multiple audit and investigative units operating within an agency,

-- auditors and investigators reporting to officials who were responsible for the functions under review,

-- investigators being restricted from looking into certain areas of suspected irregularities,

-- audit recommendations frequently being ignored by agency officials,

-- audit and investigative units severely limited due to inadequate resources, and

-- the lack of procedures to ensure that the agency head and the Congress were informed of serious problems discovered in the agency.

We strongly supported passage of the Inspector General Act of 1978 and other legislation that created the statutory inspectors general. We supported such legislation because it would correct many of the deficiencies in the audit and investigative communities, and would help ensure that high-level attention is given to promoting economy, efficiency, and effectiveness in federal programs and operations. We also believed such legislation would help ensure that both the Congress and agency heads would receive independent assessments of federal programs and operations for which they are accountable or have oversight responsibility.

GAO reviews over the past several years indicate that the establishment of statutory IGs has been a key factor in correcting deficiencies and in strengthening federal internal audit and investigative activities throughout the government. The statutory IGs and the President's Council on Integrity and Efficiency have reported semiannually to the Congress that they have had substantial success in helping to bring about improvements in the federal government. This success has been further substantiated by the extensive coverage of IG accomplishments which appear almost daily in the news media.

JUSTICE AND TREASURY

The departments of Justice and the Treasury are the only two remaining federal departments without a statutory IG. At the request of Senator Roth, we recently reviewed the need for statutory IGs at Justice and Treasury.

We believe that establishing statutory IGs at Justice and Treasury would strengthen the effectiveness and organizational independence of their internal audit and investigative units. Further, it would better ensure that the Attorney General and the Secretary of the Treasury, as well as the Congress, are fully informed of audit and investigative results. In 1986, we issued reports to this committee recommending that the Congress amend the Inspector General Act of 1978 to establish statutory IGs at

Justice and the Treasury. We also testified in 1986 to that effect before the House Committee on Government Operations.

Justice has numerous internal audit and investigative units fragmented among the department's various bureaus and offices. In addition to lacking central coordination, we found that most of these audit and investigative units are not organizationally independent. Also, the organization and operation of these units could affect the impartiality of their staffs because auditors and investigators sometimes review areas or investigate persons in the entity to which they are assigned. In addition, there is no assurance that the Attorney General or the Congress are advised of the work of many of these units.

Treasury also has numerous internal audit and investigative units located throughout the department and its various bureaus. Treasury has a nonstatutory IG who reports directly to the Secretary; however, the IG has audit and investigative responsibility over only about 11 percent of Treasury's operating budget. The remaining 89 percent is audited and investigated by internal affairs and inspection staffs located within the various law enforcement bureaus. Generally, bureau management has the discretion to decide which audits and internal investigations are reported outside each bureau to higher levels. As a result, there is no assurance that the Secretary of the Treasury or other Treasury management is informed of all audit and investigative issues which could have a departmentwide impact. In addition, Treasury is not required to routinely inform the Congress about the department's audit and investigative activities.

The structure of internal audit and investigative units within Justice and Treasury does not provide the central leadership that exists in those same activities at departments and agencies with statutory IGs. We believe that the structure and management of the audit and investigative units at Justice and Treasury lack organizational independence and that this may inhibit the units from making objective assessments and from reporting to the Attorney General and the Secretary of the Treasury, as well as to the Congress, on audit and investigative results and activities.

Both the Department of Justice and the Department of the Treasury oppose the establishment of statutory IGs.

The Department of Justice contends that its inclusion under the IG act would

-- superimpose an IG over the present authority of the Attorney General,

-- allow an independent IG to interfere with or jeopardize ongoing external investigations and prosecutions, and

-- require the IG to disclose sensitive or classified information.

The Department of the Treasury contends that its inclusion under the IG act would

-- subject its decisions involving economic, tax, and monetary policy to IG review, thus dampening the free exchange of ideas necessary for development of economic policy, and

-- provide the IG with the statutory authority to interfere with any ongoing investigation being conducted by Customs; Secret Service; and Alcohol, Tobacco, and Firearms personnel.

We believe the concerns of Justice and Treasury could be handled by inserting special provisions in the IG act as was done when a statutory IG was established in the Department of Defense. For example, the IG act allows the Secretary of Defense to prohibit certain IG audits and investigations in order to preserve national security interests. The IG must report any such action to the appropriate congressional committees, and the Secretary of Defense must submit a statement on the reasons for his action to the same committees. If the Congress believes that similar protection is needed for Justice and Treasury due to their law enforcement responsibilities, the Attorney General and the Secretary of the Treasury could be given powers similar to those of the Secretary of Defense.

FEDERAL EMERGENCY MANAGEMENT AGENCY

We believe that a statutory IG should be established in the Federal Emergency Management Agency (FEMA). During a 1985 review, we found that the nonstatutory IG experienced an impairment to his independence when he was asked to transfer to another position after conducting sensitive investigations involving high-level FEMA officials.

We also found that important and vulnerable FEMA programs and activities, such as procurement and the management of flood and crime insurance, have received little or no internal audit coverage largely because, according to FEMA audit officials, the IG's office lacked adequate staffing resources.

We believe the establishment of a statutory IG in FEMA will help resolve these problems. The Office of Management and Budget has also testified that it supports the establishment of a statutory IG at FEMA.

NUCLEAR REGULATORY COMMISSION

We have also taken the position that the Congress should consider establishing a statutory IG at the Nuclear Regulatory Commission (NRC).

In 1981, we recommended that Congress consider establishing a statutory IG at NRC. We found there was a need to strengthen the independence of NRC's audit and internal investigative unit. We reported that the accident at the Three Mile Island nuclear powerplant and other critical problems, such as the safe disposal of nuclear waste, heightened the need to enhance public trust in the regulation of commercial nuclear power and the desire for greater oversight over NRC activities.

Since 1981, we have performed only limited review work involving the NRC audit and internal investigative unit. During our reviews, however, we have found no reason to change our position on the need for a statutory IG at NRC. Further, with events such as the Chernobyl accident, a need continues for independent oversight and reporting to the Congress on the regulation of commercial nuclear power and oversight over other NRC activities.

POSTAL SERVICE

This committee has also asked us whether we believe there is a need for a statutory IG at the Postal Service.

We are currently reviewing the organization and operations of the Postal Inspection Service, which is the internal audit and investigative unit of the U.S. Postal Service. We are providing information to the House Post Office and Civil Service Committee in a report that will be issued in the near future, so our conclusions as stated at this hearing are tentative with regard to the final position that will be taken in our report.

With that caveat, I wish to point out that our work up until now indicates that many of the concerns I mentioned earlier in my testimony that led to the creation of IGs in 1978 are not evident at the Postal Service; however, improvements could be made regarding the independence of the Chief Postal Inspector, and the amount of information provided to the Congress.

We plan to provide a series of alternatives for implementing the improvements we see as necessary for the Postal Inspection Service. These alternatives range from creation of a statutory IG at the Postal Service to actions which the Postal Service itself could take to improve the independence and operations of its Postal Inspection Service.

For example, the Chief Postal Inspector, is hired, and can be fired, by the Postmaster General. The independence of the Chief Postal Inspector could be strengthened by requiring approval of the Postal Board of Governors before the Postmaster General appoints or removes from office the Chief Postal Inspector. Further, the Congress could be better informed of the Inspection Service's activities by requiring the Service to report semiannually on the same basis as statutory IGs.

OTHER AGENCIES

This committee also asked us for suggestions on how federal audit and investigative operations, in general, could be improved.

Legislation was introduced in the last session of the Congress in both the Senate and the House that would have extended IG requirements and protections to internal audit and investigative units in a number of federal agencies that are not currently covered by such provisions. While we have not reviewed in detail the needs and problems of every federal audit entity, and while some audit entities may be considered too small to require such requirements as subpoena power, we nevertheless believe the general concept of extending the protections and requirements enjoyed by the statutory IGs to most, if not all, of the audit and internal investigative activities is a good one, and one which we support.

This concludes my statement, Mr. Chairman. We will be pleased to respond to any questions you may have.

OFFICE OF MANAGEMENT AND BUDGET

THE
INSPECTORS GENERAL

President's Council
on
Integrity and Efficiency

January 1986

THE INSPECTORS GENERAL

The following document was prepared by the President's Council on Integrity and Efficiency (PCIE). This Council was created by an Executive order of President Reagan on March 26, 1981 as part of his commitment to eliminate fraud, waste and abuse in government and to coordinate government-wide efforts to that purpose. Chaired by the Deputy Director of OMB, PCIE membership includes 17 statutory Inspectors General, the nonstatutory IG of the Department of Treasury, the Deputy Attorney General, the Assistant Director of the Criminal Investigative Division of the FBI, and the Director of the Office of Personnel Management.

IG Mission and History

The term Inspector General (IG) has been familiar to the military since the foundation of the republic. The traditional IG role was to determine the operational readiness of our combat forces. When most veterans think of an IG, they imagine field inspections of the troops. The mission of the civilian statutory IGs, however, is quite different. The civilian IGs harness the audit and investigative resources of their agencies for the express purpose of promoting economy, efficiency and effectiveness and preventing and reducing fraud, waste and abuse.

Over the last few decades, agencies have experimented with adapting the military IG concept to civilian use with varying degrees of success. Invariably, their lack of independence from program officials interfered with their effectiveness and credibility. In the 1970s Congressional hearings explored ways these defects might be cured. Disclosures of widespread fraud, waste and abuse and scandals in agricultural, health and welfare programs lent impetus to these efforts. Congress, in a series of enactments beginning in 1976, moved to establish statutory IGs outside the administrative control of the individual agency programs. Today, there are a total of 17 such offices in the Federal agencies or departments.

The stated purpose of IG legislation is "to create an independent and objective unit: (a) to conduct and supervise audits and investigations relating to programs and operations . . .; (b) to provide leadership and coordination and recommend policies for activities designed; (1) to promote economy and efficiency in the administration of; (2) to prevent and detect fraud and abuse in such programs and operations; and (c) to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies . . . ."

Appointment and Structure

Inspectors General are presidential appointees, confirmed by the Senate. They can only be removed by the President, who must give a written explanation to Congress. By law, they are appointed without regard to political affiliation, solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration or investigations.

All OIGs have: (1) audit offices, which perform comprehensive audits of programs and operations, and grantees and contractors of the agency; and (2) investigation offices, which do criminal, civil and administrative investigations of those individuals and entities which may have engaged in fraud or otherwise violated laws and regulations designed to insure and protect the government's programs, beneficiaries, and taxpayers. Many OIGs also have inspection units, which conduct evaluations of facility or office management, or perform management studies to assure efficient and effective program administration and delivery of services. All IGs also review existing and proposed legislation and regulations for their impact on economy and efficiency and their susceptibility to fraud and abuse.

IGs have a dual reporting responsibility to the agency or department head, as well as to the Congress. In fact, by statute they report semiannually to Congress, describing programmatic and administrative problems, listing their current and pending recommendations and summarizing prosecutive referrals and convictions made during the reporting period. This dual reporting requirement is key to the critical components of insuring: (a) public disclosure of program weaknesses; and (b) the objectivity and independence of the reporting office. By reporting to the agency head (as opposed to program-level officials), as well as to Congress, the IGs can better insure their independence. The current IG authority also relieves program managers and agency executives from being solely responsible for gathering objective data and evidence in those circumstances where wrongdoing is suspected and where intense scrutiny and controversy exist.

Coordination and Cooperation

Inspectors General and management pursue the same ultimate objective: the efficient and effective operation of programs and delivery of services. In fact, IGs function as part of the agency head's senior management team; the IG should be viewed as a key element in any effective management program. The IGs act as independent fact-gathers, with no vested interest in particular programs or operations, often perform services at the request of the agency head, and serve as technical advisors in such areas as financial management systems and internal controls.

Inspectors General work cooperatively with other organizations in order to accomplish their missions, except when such a relationship would compromise OIG independence. Often they develop close working relationships with the major components of their departments in order to coordinate efforts and to combine expertise shared by both groups. As part of these close working relationships, program managers are frequently involved in the formulation of the OIG workplan and may request specific audits, investigations or studies be done by the IG.

The President's Council on Integrity and Efficiency (PCIE) is another vehicle the IGs use to work cooperatively. In the four years since its creation, the IGs have worked on numerous projects which focus on the PCIE's twin themes of management improvement and continued review of government operations and activities that will produce dollar savings with budgetary impact. These activities have ranged from creation and operation of the Computer Matching Project to efforts to establish a government-wide debarment and suspension system for dishonest or incompetent contractors and grantees.

Summary of the Progress Report of the President's Council on Integrity and Efficiency

April 1, 1986 - September 30, 1986

This summary of the Progress Report recaps the accomplishments of the President's Council on Integrity and Efficiency (PCIE) during Fiscal Year 1986. This information concentrates on the second 6 months of Fiscal Year 1986, since these have not been previously reported. The report presents six statistical tables and numerous case examples which detail the results of the PCIE for the reporting period and concludes with narratives on the accomplishments of PCIE standing committees and projects during the 6-month period. The report is available from the Office of Inspector General, Department of Health and Human Services.

The PCIE was established by President Reagan in March 1981 to coordinate and implement Government-wide activities to combat fraud and waste in Federal programs and operations. The PCIE is chaired by the Deputy Director of the Office of Management and Budget (OMB). The PCIE membership includes the Deputy Attorney General, the Director of the Office of Personnel Management, the Executive Assistant Director for Investigations of the Federal Bureau of Investigation, 18 statutory Inspectors General, and the non-statutory Inspector General of the Department of Treasury. The Inspector General of the Railroad Retirement Board was sworn in as a statutory Inspector General on January 14, 1986 and is not able to provide data for this period, but will report in subsequent periods. Also, effective August 27, 1986, an amendment to the Omnibus Diplomatic Security and Anti-Terrorism Act of 1986 abolished the Office of the Program Inspector General of the Department of State, and created an Office of Inspector General under the 1978 Inspector General Act. During this transitional period data was not submitted, but will be in subsequent periods.

This is the twelfth semiannual report issued by the PCIE. The report highlights the accomplishments of the Inspectors General (IGs) to reduce fraud and waste and to insure integrity and efficiency in Federal programs and operations. Accomplishments of the IGs during the reporting period include:

- 2,363 successful prosecutions (Table 1);
- $123.5 million in investigative recoveries (Table 2);
- 1145 debarments and suspensions of persons or firms doing business with the Government (Table 3);
- 580 administrative sanctions against Federal and contractor employees (Table 3);
- $1.0 billion recoveries and restitutions arising from Inspector General findings (Table 4);
- $6.3 billion in savings and avoidance of unnecessary expenditures (Table 5);
- $3.8 billion in questionable costs sustained by contracting officials identified in audits performed by the Defense Contract Audit Agency (Table 5); and
- 11,053 allegations of fraud, waste or mismanagement received over IGs' hotlines, or by other means, from agency employees and the public (Table 6).

The approximately $11.2 billion cited for this 6-month period brings the cumulative accomplishments of the Inspectors General, as reported to the President's Council on Integrity and Efficiency, to more than $84.0 billion in improved use of funds since the PCIE was established.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

NEW PROJECTS - FY 1987

A. AUDIT COMMITTEE

Federal Policies on Interest Recognition on Debts Owed

This project will (1) determine the extent of interest losses which occur because existing Federal policies do not charge interest on unallowable claims from the point the improper expenditure was made and (2) develop options to eliminate or reduce interest losses. (Lead: DoD)

Indirect Cost Reimbursements to Indian Organizations

This project will examine the inconsistencies which exist between agencies which negotiate indirect cost rates with Indian organizations and recommend ways to improve and make consistent the indirect cost delivery systems to Indian organizations. (Lead: Interior)

Government Policies Regarding Deposits of Payroll Taxes by Federal Grantees and Contractors

This project will (1) determine the amount of interest cost to the Government resulting from Federal funds being advanced to grantees and contractors and subsequently remitted back to the Government as payroll taxes and (2) examine feasibility of proposing policy to accelerate payroll tax deposits by grantees and contractors. (Lead: HHS)

Review of Government-wide Policy Guidance on Interest Costs Charged to Federal Grants under State and Local Government Pension Plans

This project will (1) determine the impact on Federal programs of interest costs associated with State and local unfunded pension liabilities and (2) examine potential changes to Federal cost principles to eliminate or limit these interest charges. (Lead: HHS)

Federal Employees Compensation

This project will determine the extent Federal agencies are improving management of their injury claims to minimize fraud, waste and abuse and examine any legislative or regulatory changes necessary to improve the ability of agencies to manage claims and prevent fraud or abuse. (Lead: DOL)

Credit Management Standards

This project will examine Federal loans and loan guarantees to determine how to minimize unwarranted exposure to loan losses particularly through improved loan guarantee management. (Lead: Commerce)

Administrative Costs for Federal Programs

This project will determine the most equitable method or methods of providing assurance that States and local governments are being reimbursed only the Federal Government's fair share of indirect and administrative costs. This project will be completed under contract to a CPA firm to survey work done in this area and review selected audit reports from single audits of State and local governments. (Lead: DOL)

Abuse of Cash Draw Downs by Grantees and Contractors

This project will evaluate the extent of grantee and contractor abuse of Federal cash draw down requirements and recommend actions needed to curtail this abuse and alternative means for controlling and reporting on financial assistance activities of these entities. (Lead: AID/HHS)

B. COMPUTER COMMITTEE

Computer Systems Integrity

This project will evaluate, through review of systems in various phases of their systems' life cycles, the adequacy of provision for internal controls and security in agency automated information systems. This multi-phased project will issue multiple reports after each life cycle review phase. This project will also include in its final phase a brief survey of data communications technology issues. (Lead: NASA and Transportation)

Payment Integrity

This project is designed to coordinated State wage matching for Federal agencies; to identify controls and approached to eliminate inesligible recipients from program rolls; and to identify individuals receiving benefits from multiple programs and total value received. (Lead: DOL)

Documentation Guidelines for Computer Assisted Audits/Investigations

This project will provide an OIG audit and investigative reference for use in assuring adequate documentation when mainframe, minicomputer and/or microcomputer applications are used during the conduct of an audit or investigation. (Lead: NASA)

Computer Security in State and Local Governments

This project will assess the computer security programs in State and local government agencies that administer Federally funded assistance programs, especially Aid to Families with Dependent Children, Medicaid, and Food Stamp programs. (Lead: HHS)

Management Control over Computer Systems

This project is designed to provide assistance to Federal agency management in improving internal controls over computer-based systems. The final product will be a model control process through which management can insure that proper controls, in compliance with OMB, GAO and other guidance are in place and operating in computer systems. (Lead: HHS)

C. INSPECTIONS/SPECIAL REVIEWS COMMITTEE

Review of Small Agency Audit and Investigative Capabilities

This study, being performed at the request of the Senate Committee on Governmental Affairs, will (1) evaluate the extent of internal audit and investigative activities at Federal agencies that have small or no audit and investigative staffs, and (2) recommend the most appropriate and efficient methods of ensuring that effective audits and investigations are carried out at these agencies. (Lead: Commerce)

Survey of 7-Day Letter Provisions of IG Act of 1978

This survey will examine the extent and characteristics of usage of 7-day letters by the IG community and analyze the intent of the legislation in this provision. (Lead: Commerce)

Legal Analysis of IG Subpoenas

This survey will provide comprehensive data on the number, circumstances, and results of attempts to quash IG administrative subpoenas since 1978. (Lead: Commerce)

Successful Followup Practices to OIG Recommendations

This project will determine the most successful followup procedures in ensuring management responsiveness to agreed-upon recommendations of contract audits, internal audits, internal review reports, audits conducted by the General Accounting Office, and inspections. (Lead: DoD)

Assessment of Penalties on Overpayments Due to Recipient Misrepresentation

This project will (1) identify the groups of programs serving the same type of recipient and the type or lack of penalty being assessed and (2) assess the feasibility of a uniform, Government-wide penalty provision. (Lead: VA)

Quality of Administrative Remedies

This project will examine Federal agency practices and experience in handling administrative actions (including disciplinary actions) against Federal employees involved in fraud or abuse. (Lead: Commerce)

Federal Medical Licensure and Discipline Practices

This project will examine the medical licensure and discipline policies and practices of the Federal agencies employing. (Lead: HHS)

FOIA Survey

This project, which is being completed to assist OMB in implementing the Freedom of Information Reform Act of 1986, will survey Federal agencies about their practices and definitions in dealing with commercial users of FOIA. This project will also coordinated IG comments on the proposed guidelines on the new FOIA provisions. (Lead: HHS)

Survey of the Adequacy of Implementation of the Prompt Payment Act

This project will determine if the agencies have effectively implemented the Prompt Payment Act. This includes determining whether bills are paid on time, interest is paid when appropriate, bills are paid early, and discounts are taken only when appropriate. This project will also assess the accuracy of the reports provided to OMB by agencies on bill payments and interest paid. (Lead: Commerce)

D. INVESTIGATIONS/LAW ENFORCEMENT COMMITTEE

Collections of Court-Ordered Restitutions

This project will examine (1) the effectiveness of the collection of Court-ordered restitutions by the Offices of the U. S. Attorney and (2) the adequacy of accounting controls within agencies to properly handle the monies which are returned to them. (Lead: EPA)

Collection of Court-Ordered Restitutions and Fines

This project is designed to examine the effectiveness of the collection of Court-ordered restitutions and fines by the U. S. Attorney's Offices and the abilities of agency processes to properly handle these monies. This fast-track review is designed to provide input to the U. S. Sentencing Commission on the use and effectiveness of restitutions when the Government is the victim of crimes. (Lead: EPA)

Evidentiary Issues in Electronic Media Billing/Electronic Funds Transfer

This project will (1) examine the growing phenomenon of paperless transactions through electronic media billing or electronic funds transfer and (2) determine, in conjunction with the Department of Justice, what guidance should be given to investigators for development of evidence in cases involving electronic transactions. (Lead: FBI)

Characteristics of Successful Procurement and Financial Investigations

This project will (1) identify and catalog investigative techniques that have been used to develop successful procurement and financial cases, and (2) provide summary data on the types of predications and any patterns of internal control weaknesses found in successful cases. (Lead: DOE)

Individual Case and Organizational Planning

This project will assess the need to clarify or expand the investigative planning standard which is currently used by the Inspector General community and to identify areas of agreement in setting standards. (Lead: EPA)

Program Fraud Civil Remedies Act

This project will develop model regulations for agencies to use in implementing the Program Fraud Civil Remedies Act of 1986. This act gave agencies new civil sanctioning authorities for false statements and false claims and was based on the previous Civil Monetary Penalties Law. Because of the past experience, model regulations are being developed to insure consistent implementation across agencies. (Lead: HHS)

E. PREVENTION COMMITTEE

Awareness for External Parties

This project will (1) inventory existing agency communications and awareness practices aimed at educating contractors, program recipients, and other external parties to their responsibilities, restricted/prohibited activities, and agency enforcement activities; and (2) identify common awareness needs to be the basis for future PCIE products. (Lead: HUD)

Federal Hotlines

This project will examine Federal Hotline operations and assess the need for developing and recommending uniform policies, procedures, guidelines, terminology, staffing patterns and/or training in Hotline operations. (Lead: RRB)

Feedback to Whistleblowers

This project will examine agency practice in giving feedback to whistleblowers on the outcome of their reports of wrongdoing and assess whether standard guidance is needed. (Lead: RRB)

Prompt Payment Act Hotline for Vendors

This project will explore the potential of various alternative arrangements (including the use of IG Whistleblower Hotlines) to provide vendors with a hotline(s) for reporting payment problems falling under the Prompt Payment Act. (Lead: USDA)

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